

HSBC HOLDINGS PLC
Form 6-K
February 27, 2012

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of February
HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes..... No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.....).

27 February 2012

HSBC HOLDINGS PLC
2011 RESULTS - HIGHLIGHTS

Reported profit before tax US\$21.9bn, up 15% on 2010, including US\$3.9bn of favourable fair value movements on own debt*

Gained traction in 1st year of 3 year strategy to reshape the Group, improve returns and position for growth

As part of reshaping the Group, announced disposal/closure of 16 businesses in 2011, and 3 to date, in 2012

Strong performance in faster-growing markets, revenue up 12% in Asia, Latin America and MENA, which now account for 49% of Group revenue

Record year in Commercial Banking with profit before tax of US\$7.9bn up 31%

Global Banking and Markets profit before tax US\$7.0bn, down 24%, but growth in 6 of 9 business lines

Strong growth in cross-selling revenues between Commercial Banking and Global Banking and Markets

Retail Banking and Wealth Management profit before tax US\$4.3bn, up 11%

Cost efficiency ratio weakened from 55.2% to 57.5%

Achieved sustainable cost saves of US\$0.9bn with strong pipeline of further savings

Costs rose by 10%, reflecting higher staff costs, largely in faster-growing markets, and included a number of significant items including restructuring costs of US\$1.1bn, partially offset by sustainable savings

Return on average ordinary shareholders' equity 10.9%, up from 9.5% in 2010, including fair value on debt

Profit attributable to ordinary shareholders of US\$16.2bn, up 27% on 2010 of which US\$7.3bn was declared in dividends in respect of the year. This compared with US\$3.4bn of variable pay awarded (net of tax) to our employees

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Earnings per share US\$0.92, up 26% on 2010

Dividends declared in respect of 2011 US\$0.41 per ordinary share, up 14% on 2010, with a fourth interim dividend for 2011 of US\$0.14 per ordinary share

Core tier 1 capital ratio 10.1%, down from 10.5% in 2010, largely reflecting the absorption of Basel 2.5 and credit growth. Our core capital strength is supported by our consistent retention of profit and investment in profit generating capacity, further building reserves

Focused on 2013 targets: return on average shareholders' equity 12-15%, cost efficiency ratio 48-52%

Stuart Gulliver, Group Chief Executive said:

"2011 was a year of major progress for HSBC. We gained traction in our strategy designed to simplify the structure and improve the management and control of the Group, thereby improving returns and positioning HSBC for growth. We recorded a strong performance in faster-growing markets and had a record year in commercial banking. I am pleased with our progress but there is a lot more to do and we remain focused on delivering our targets."

Key performance indicators:

| Metric | 2010 | 2011 | Target/benchmark |
|---|------|------|------------------|
| Return on average ordinary shareholders' equity (%) | 9.5 | 10.9 | 12-15 |
| Cost efficiency ratio (%) | 55.2 | 57.5 | 48-52 |
| Earnings per share (US\$) | 0.73 | 0.92 | - |
| Core tier 1 ratio (%) | 10.5 | 10.1 | 9.5-10.5 |

*All figures are given on a reported basis, unless otherwise stated

HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US\$21,872 MILLION¹

HSBC made a profit before tax of US\$21,872m, an increase of US\$2,835m, or 15%, compared with 2010.

Net interest income of US\$40,662m was US\$1,221m, or 3%, higher than 2010.

Net operating income before loan impairment charges and other credit risk provisions of US\$72,280m was US\$4,033m, or 6%, higher than 2010.

Total operating expenses of US\$41,545m rose by US\$3,857m, or 10%, compared with 2010. On an underlying basis operating expenses were up 8% compared with 2010.

HSBC's cost efficiency ratio was 57.5% compared with 55.2% in 2010.

Loan impairment charges and other credit risk provisions were US\$12,127m in 2011, US\$1,912m lower than 2010.

The core tier 1 ratio and tier 1 ratio for the Group remained strong at 10.1% and 11.5%, respectively, at 31 December 2011.

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The Group's total assets at 31 December 2011 were US\$2,556bn, an increase of US\$101bn, or 4%, since 31 December 2010.

Geographical distribution of results¹

| | Year ended 31 December | | | |
|---|------------------------|-------|---------|-------|
| | 2011 | | 2010 | |
| | US\$m | % | US\$m | % |
| Europe | 4,671 | 21.3 | 4,302 | 22.6 |
| Hong Kong | 5,823 | 26.6 | 5,692 | 29.9 |
| Rest of Asia-Pacific | 7,471 | 34.2 | 5,902 | 31.0 |
| Middle East and North Africa | 1,492 | 6.8 | 892 | 4.7 |
| North America | 100 | 0.5 | 454 | 2.4 |
| Latin America | 2,315 | 10.6 | 1,795 | 9.4 |
| Profit before tax | 21,872 | 100.0 | 19,037 | 100.0 |
| Tax expense | (3,928) | | (4,846) | |
| Profit for the year | 17,944 | | 14,191 | |
| Profit attributable to shareholders of the parent company | 16,797 | | 13,159 | |
| Profit attributable to non-controlling interests | 1,147 | | 1,032 | |

Distribution of results by global business¹

| | Year ended 31 December | | | |
|--------------------------------------|------------------------|-------|---------|-------|
| | 2011 | | 2010 | |
| | US\$m | % | US\$m | % |
| Retail Banking and Wealth Management | 4,270 | 19.6 | 3,839 | 20.2 |
| Commercial Banking | 7,947 | 36.3 | 6,090 | 32.0 |
| Global Banking and Markets | 7,049 | 32.2 | 9,215 | 48.4 |
| Global Private Banking | 944 | 4.3 | 1,054 | 5.5 |
| Other | 1,662 | 7.6 | (1,161) | (6.1) |
| Profit before tax | 21,872 | 100.0 | 19,037 | 100.0 |

¹ All figures on this page are on a reported basis unless otherwise stated.

Statement by Douglas Flint, Group Chairman

Throughout its history HSBC has sought to facilitate economic growth, as it is through such growth that businesses flourish and individuals fulfil the aspirations they have for themselves and those close to them. The cover of this year's Annual Report and Accounts illustrates a core element of HSBC's strategic direction - that is connecting markets by providing the financing and risk management products that facilitate trade and investment flows. In so doing, we help our customers to achieve their growth ambitions and generate economic returns for savers and investors.

The picture also illustrates the shift in emphasis towards the faster-growing markets that underpins HSBC's investment priorities. The port is Santos in Brazil, which is the largest container port in South America; the ship is from China, delivering heavy machinery. The Brazil-China trade corridor has been one of the fastest growing over the last decade with a compound annual rate of growth of around 30%. China is now Brazil's largest trade partner representing 18% of its total trade flows, versus 4% in 2000.

HSBC entered Brazil in 1997 and since then has built its operations to generate pre-tax profits of US\$1.2 billion in 2011, an increase of 19% over the prior year. We estimate that we finance over 6% of Brazil's total trade and some 9% of its trade with China. In 2011 we were recognised as 'Financial institution of the year' by the Brazil-China Chamber of Commerce for having contributed most to the growth and development of the Brazil-China trade corridor.

The purpose of the above introduction is to highlight the fact that, notwithstanding the major uncertainties and risks concentrating minds in the advanced economies of Europe and the US, there are still attractive growth opportunities to pursue where our international network and strong balance sheet provide distinctive advantages.

Performance in 2011

In 2011 in our heartland of Asia, throughout the Middle East and in Latin America we made good progress in developing customer business in line with the risk appetite endorsed by the Board. Largely driven by growth in lending in these faster-growing regions, our Commercial Banking business delivered a record performance. In Europe and the US we concentrated on supporting our core customer base, targeting trade services while constraining risk appetite within the financial sector. We also made significant further progress in working down our exit businesses in the US. The Group Chief Executive's Review expands upon the execution of our strategy during 2011.

The strong progress made on strategy execution was all the more marked when contrasted with the fragile confidence that pervaded the advanced economies of the world. Continuing uncertainties arising from the eurozone debt crisis contributed to credit demand remaining muted in Europe, while US recovery lagged expectations held earlier in the year. As investors crowded into the safest asset classes, market activity levels dropped markedly and prices of securities outside the favoured asset classes weakened. These factors markedly reduced trading revenues in the second half of the year.

Against the backdrop of the economic and financial market conditions described above, the Board considered the Group's performance in 2011 to be satisfactory in aggregate and strong in the faster growing markets. Earnings per share rose by 26% to US\$0.92 and the Board approved a fourth interim dividend of US\$0.14 per ordinary share taking total dividends in respect of 2011 to US\$0.41 per share, an increase of US\$0.05 per share or 14%. The Board confirmed its intention to continue to pay quarterly dividends during 2012 at the rate of US\$0.09 per ordinary share in respect of each of the first three quarters, in line with 2011.

Notably, the capital strengthening required by regulatory reform is being successfully delivered while maintaining the strongest dividend paying record of any bank outside mainland China.

Total dividends declared during 2011 amounted to US\$7.3 billion and in the last four years, that is since the financial crisis started, they have amounted to US\$27.2 billion, making HSBC the second largest dividend payer in the FTSE100 during this period.

Addressing a matter of public interest, the cost to shareholders of performance-related rewards made within our Global Banking and Markets business in 2011 and during the past four years amounted to some US\$1 billion and US\$4.7 billion, respectively. Pre-tax profit from Global Banking and Markets was, in aggregate, US\$30 billion in the same four years, and represented the largest contribution, at 52%, of Group pre-tax profits during that period.

At the end of 2011, total shareholders' equity stood at US\$159 billion, up 24% from its pre-crisis level of US\$128 billion at the end of 2007. Over the same period, our balance sheet grew by only 9%. The core tier 1 ratio at the end of 2011 stood at 10.1%, in line with our target range.

As foreshadowed in last year's Statement, the UK government proceeded with its plan to raise £2.5 billion through a levy on the global balance sheets of UK domiciled banks. The cost to HSBC was US\$570 million of which US\$340 million related to non-UK banking activity. The levy, which is not tax deductible, is the equivalent of US\$0.03 per ordinary share and, as indicated last year, would otherwise be available for distribution to shareholders.

Progress on regulatory reform

A number of important milestones were passed during 2011 on the regulatory reform agenda. In the UK the Independent Commission on Banking ('ICB') delivered its report in September and the Government published its response in December. In the US, greater clarity on the Dodd-Frank legislation was delivered through a multitude of notices of proposed new regulation and four US financial regulatory agencies issued proposed uniform regulations that would implement the Volcker Rule, which aims to constrain major financial institutions from engaging in proprietary trading and most hedge fund and proprietary investment activities. The Basel Committee, in conjunction with the Financial Stability Board, set out its proposals to identify and increase capital requirements for Global Systemically Important Banks and most major jurisdictions published their proposals around recovery and resolution planning for major institutions. Europe continued to embed the Basel III proposals within a new draft Capital Requirements Directive ('CRD IV'), the European Banking Authority formally came into existence as the hub of financial regulatory bodies in Europe and, in the UK, HM Treasury published its proposals for a new approach to financial regulation and the replacement of the FSA with a new supervisory structure, directed by the Bank of England.

Many topics remain subject to further debate including cross-border resolution protocols, the governance and operation of central counterparties, the prospective role of clearing systems and exchanges, the calibration of the proposed new liquidity framework, the definition and operation of proposed proprietary trading restrictions, the possible harmonisation and peer review of the calculation of the risk weights that drive capital requirements, a re-assessment of the risk free treatment of sovereign debt and some 22 follow-on workstreams are ongoing in the wake of the UK Government's response to the ICB Report.

It is clear from the above that the industry will continue to bear a heavy burden of both time commitment and cost as it works with policy makers to finalise the regulatory reforms, including addressing the many inconsistencies within and extra-territorial dimensions of national rule-making. We are committed to all necessary constructive dialogue and support to speed the finalisation of these remaining issues. Our input will stress that it is critical that the reforms deliver a sustainable business model that can attract external economic capital. This is essential for the financial system to be able to contribute as fully as it should to the economic growth agenda which is being mandated by political leaders globally.

Board changes

We bid farewell at the upcoming AGM to two directors who have given huge service to HSBC over many years and who will not stand for re-election.

Sir Brian Williamson has served on the Board of HSBC Holdings since 2002 and brought great insight and wisdom to the Board from a distinguished career in financial services, most notably in the areas of money and bond markets, clearing, exchanges and electronic trading platforms where he was a pioneer in establishing The London International Financial Futures and Options Exchange.

Gwyn Morgan has served on the Board of HSBC Holdings since 2006 and before that on the Board of HSBC Canada for some nine years. His vast experience of leading large international companies in the engineering and energy sectors brought a balanced industrialist's perspective to Board discussions and debate.

We shall miss them both and thank them sincerely for their contributions over many years.

We are delighted to welcome two new faces to the Board. Joachim Faber and John Lipsky will join the Board on 1 March.

Joachim Faber stepped down from the Management Board of Allianz at the end of 2011 where he served latterly as CEO of Allianz Global Investors one of the top five investment managers globally. He brings a wealth of experience from the perspective of the investor as well as in depth knowledge of banking, insurance, finance and capital markets from previous roles in a long and distinguished career.

John Lipsky is one of the world's best known and respected economists who most recently served as First Deputy Managing Director at the IMF from which he retired in November 2011. Over the last five years John has been one of the key links between macroeconomic policymakers and the financial community and brings to the Board an exceptional depth of knowledge and understanding of the macroeconomic and geopolitical issues that will shape the future of the global economy.

Fuller details of their background and experience are set out in the Directors' Report.

Brand and reputation

At HSBC we continue to think long-term as we build business platforms and relationships that will create options for value creation in generations to come.

Tactically there are necessary difficult decisions to take in today's subdued economic environment but these are always weighed against what is right for the long-term health of the business. Similarly when things go wrong, as they will from time to time, we judge ourselves, inter alia, against how we respond and how quickly we learn from the experience. Nothing is more important than our reputation.

It was a moment of great pride within the organisation when we were judged to be the most valuable banking brand in the world in the recent Brand Finance® Banking 500 2012 report. This is the 4th time HSBC has headed the list in the last five years. This recognition is a testament to the work of all of my colleagues in building value for customers that translates to shareholder value.

At the same time, however, we reflect that in 2011 we continued to deal with legacy regulatory, legal and reputational issues which remind us that our good work can be destroyed by lapses of judgement or control. The settlement of claims around the historical selling of Payment Protection Insurance in the UK, the fine and compensation arising from the now closed NHFA business and ongoing regulatory and legal investigations in the US across a number of areas are all matters from which we need to learn to ensure they do not recur. The programme of values training which the Group Chief Executive is leading for all employees is but one measure to this end. We are truly sorry to all those

who were adversely affected by our failings and to our shareholders for the reputational damage incurred.

Looking ahead

It is just over a year now since Stuart Gulliver and I took on our respective roles. During that time, the leadership team around Stuart has grown in stature and cohesion and is I believe among the best in our industry. That team is supported strongly by talented colleagues whose engagement and commitment to the strategic priorities laid out before them is evident and enthusiastic. On behalf of the Board I want to take this opportunity to thank them for their support and dedication. The uncertain economic and geopolitical backdrop will continue to raise challenges throughout 2012 and beyond. I am, however, confident that HSBC has the people, the financial strength and the right strategic focus and values to do well for those who place their trust in us, thereby meeting their expectations of us and contributing to the fulfilment of their aspirations and ambitions. That is what we exist to do.

Review by Stuart Gulliver, Group Chief Executive

2011 was a year of change for HSBC as we articulated a clear strategy to become the world's leading international bank. We made significant progress in executing this strategy to reshape the Group and improve returns. First, we conducted a Group-wide portfolio review to improve our capital deployment and have now announced the disposal or closure of 16 non-strategic businesses during the year, and a further 3 in 2012. Second, we took action to improve our cost efficiency, achieving sustainable cost saving of US\$0.9bn. Third, and most importantly, we continued to position the business for growth, increasing revenues in each of the world's faster-growing regions, particularly in mainland China, India, Malaysia, Brazil and Argentina. Commercial Banking achieved record revenue and profits, helped by loan growth as well as growth in cross-selling from Global Banking and Markets. In Wealth Management we made modest progress towards our target of US\$4bn of incremental revenue over the medium term.

Executing our strategy is the primary lever to improve the Group's performance. A substantial amount has been achieved during 2011 but this will be a long journey with significant headwinds, so we are increasing the intensity of execution in 2012.

Group performance headlines

HSBC's financial performance was resilient.

Reported profit before tax was US\$21.9bn, up US\$2.8bn on 2010, including US\$3.9bn of favourable fair value movements on our own debt attributable to credit spreads, compared with a negative movement of US\$63m in 2010.

Underlying profit before tax was US\$17.7bn, down US\$1.2bn on 2010 due to higher costs which were partly offset by a significant improvement in loan impairment charges and other credit risk provisions.

We recorded a strong performance in each of the faster-growing regions. Underlying revenues grew in Rest of Asia-Pacific by 12%, in Hong Kong by 6% and in Latin America by 13%. The strong performance in these regions also led to record revenues in Commercial Banking.

We achieved strong revenue growth in key markets including mainland China, India, Malaysia, Brazil and Argentina, driving increases in profit before tax.

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On an underlying basis, total revenues were broadly in line with 2010, despite the turmoil in the eurozone and its adverse effect on Credit and Rates revenue, combined with lower income in Balance Sheet Management and the continued reduction of our consumer finance portfolios in the US.

As the process of internationalising the renminbi continued, we strengthened our leadership position with a bond clearing licence in mainland China and as the market leader in the offshore 'Dim Sum' bond market. In addition, Commercial Banking and Global Banking and Markets successfully completed our first global US dollar-renminbi cross-currency swap and we extended our renminbi capability to over 50 markets, across all continents.

Despite the eurozone sovereign debt concerns which dominated European market sentiment and depressed revenues in Global Banking and Markets, revenues grew strongly in over half of our business lines in Global Banking and Markets, including Equities and Foreign Exchange, and in Global Banking. This in part reflected the collaboration with Commercial Banking which has delivered more than US\$500m in incremental revenues.

In Wealth Management we made modest progress towards our medium-term target of US\$4bn incremental revenue, with revenue growth of some US\$300m. Notably, we generated strong sales of insurance products in Hong Kong, Latin America and Rest of Asia-Pacific, while revenue from distribution of investment products to our clients and Global Asset Management was broadly unchanged, reflecting difficult market conditions, particularly in the second half of the year.

Costs rose by 10%, reflecting wage inflation in key markets and higher average full-time equivalent employee numbers for the year (although numbers have fallen since the first quarter), as well as an increase in significant items. These included restructuring costs (including the impairment of certain intangible assets) of US\$1.1bn, UK customer redress programmes of US\$898m and a bank levy introduced by the UK Government of US\$570m, partly offset by a UK pension credit of US\$587m. The rise in costs was partially offset by US\$0.9bn in sustainable cost savings achieved so far in executing our strategy.

As a result of these factors, the cost efficiency ratio worsened from 55.2% to 57.5% on a reported basis, and from 55.6% to 61.0% on an underlying basis.

Our results continue to be adversely affected by the losses in the US consumer finance business, which, on an underlying basis, were US\$2.4bn and US\$2.2bn in 2011 and 2010, respectively. We have agreed the sale of the profitable US Card and Retail Services portfolio with the remainder of the loss-making US consumer finance business being run down.

Return on average ordinary shareholders' equity was 10.9%, up from 9.5% in 2010, reflecting the favourable movement on the fair value of our own debt.

The Group's pre-tax return on risk-weighted assets ('RoRWA') for 2011 was 1.9%, or 1.5% on an underlying basis. Adjusting for negative returns on US consumer finance business and legacy credit in Global Banking and Markets, the remainder of the Group achieved a RoRWA of 2.2% in 2011 and 2.3% in 2010.

Dividends declared in respect of 2011 totalled US\$7.3bn, or US\$0.41 per ordinary share, an increase of 14%, with a fourth interim dividend for 2011 of US\$0.14 per ordinary share.

The core tier 1 ratio was 10.1% at 31 December 2011, down from 10.5% at 31 December 2010, reflecting an increase in risk-weighted assets ('RWA's) due to the introduction of Basel 2.5 in Global Banking and Markets and growth in lending balances including those classified as held for sale. The growth in RWAs was notably in Commercial Banking, which included an increase in the RWAs of our mainland China associates.

Profit attributable to ordinary shareholders increased by 27% to US\$16.2bn, of which US\$7.3bn was declared in dividends in respect of the year. This compared with US\$3.4bn of variable pay awarded (net of tax) to our employees for 2011.

Progress on strategy

There are two major trends which are key to HSBC's future: the continuing growth of international trade and capital flows; and wealth creation, particularly in faster-growing markets. In May, we defined a new strategy for the Group to capitalise on these trends and connect customers to opportunities by building on our distinctive presence in the network of markets which generate the major trade and capital flows, capturing wealth creation in target markets and focusing on retail banking only where we can achieve profitable scale.

In a difficult operating environment this strategy is key to improving our performance and we remain focused on delivering our targets of a return on average shareholders' equity of 12-15% and a cost efficiency ratio of 48-52% by the end of 2013. We are executing the strategy by deploying capital more effectively, implementing measures to improve our cost efficiency and positioning the business for growth. We have made significant progress in all of these three areas.

First, to ensure effective deployment of capital, we undertook a Group-wide review of our business, testing each part of the portfolio against our five filters framework. This looks at the strategic relevance of each country, and each business in each country, assessing their connectivity, economic development, profitability, cost efficiency and liquidity. As a result, we announced 16 disposals or closures in 2011 and a further 3 in 2012, including two large transactions in the US, the disposal of Retail Banking and Wealth Management operations in Russia, Chile and Thailand and the exit of operations in Poland and Georgia. When completed, these disposals and closures should represent a reduction of around US\$50bn of risk-weighted assets and the transfer to the acquirers of approximately 12,000 full-time equivalent employees. We are continuing this process in 2012 and have identified a number of further transactions.

Second, to improve cost efficiency we achieved US\$0.9bn of sustainable savings. Our programmes to implement consistent business models and restructure global businesses and global functions progressed well. We are creating a leaner Group, removing layers of management to give staff greater responsibility, improve decision making and reduce bureaucracy. We have identified a strong pipeline of further sustainable cost savings which we believe will deliver at the upper end of our target of US\$2.5-3.5bn of sustainable savings by 2013.

Third, we continued to position the business for growth, as outlined in the performance headlines.

We are increasing the intensity of strategy execution in 2012 and will provide a further update at our forthcoming Investor Strategy Day.

Our purpose and values

HSBC is one of the world's largest banking and financial services organisations. We serve around 89 million customers and our network covers 85 countries and territories. With around 7,200 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to realise their ambitions.

We are putting a new emphasis on values at HSBC, so that our employees are empowered to do the right thing and to act with courageous integrity. We recognise that we have not always got this right in the past. The inappropriate advice given to customers of NHFA Limited was completely unacceptable. We are profoundly sorry about what happened and are committed to standing fully behind our customers. This case has reinforced our determination to

address legacy issues in HSBC.

Over the past year we have made our values more explicit to ensure we meet the expectations of society, customers, regulators and investors. Those values are that we are dependable, open to different ideas and cultures and connected to customers, communities, regulators and each other. We are ensuring that everyone who works for HSBC lives by these values and have made them a key part of every individual's annual performance review. By setting the highest standards of behaviour our aim is that all of our employees and customers can be proud of our business.

Outlook

In 2012, notwithstanding the macroeconomic, regulatory and political uncertainties which we believe will persist, we expect continued strong growth in the dynamic markets of Asia, Latin America and the Middle East, although at a more moderate pace than in 2011, and that mainland China will achieve a soft landing. We believe that trade and capital flows between emerging areas of the world will also continue to grow, and could increase tenfold in the next 40 years.

As these results demonstrate, HSBC is well-positioned in the faster-growing markets and across international trade flows to benefit from these engines of global growth.

In 2011 we generated a return on average ordinary shareholders' equity of 10.9% compared with 9.5% in 2010. The strength of our position gives us confidence that by the end of 2012 we will have developed a clear trajectory towards meeting our target of 12-15% by the end of 2013.

Finally, I am pleased to report we had good results in January.

Financial Overview

| Year ended 31 December | | | 31 December | Year ended |
|------------------------|------------|---|-------------|------------|
| 2011 | | | 2011 | 2010 |
| £m | HK\$m | | US\$m | US\$m |
| | | For the year | | |
| 13,648 | 170,274 | Profit before tax | 21,872 | 19,037 |
| 10,481 | 130,765 | Profit attributable to shareholders of the parent company | 16,797 | 13,159 |
| 4,323 | 53,934 | Dividends declared on ordinary shares | 6,928 | 5,937 |
| | | At the year-end | | |
| 102,536 | 1,232,976 | Total shareholders' equity | 158,725 | 147,667 |
| 110,036 | 1,323,155 | Capital resources | 170,334 | 167,555 |
| 810,036 | 9,740,489 | Customer accounts | 1,253,925 | 1,227,725 |
| 1,650,904 | 19,851,738 | Total assets | 2,555,579 | 2,454,689 |
| 781,346 | 9,395,505 | Risk-weighted assets | 1,209,514 | 1,103,113 |
| | | | | |
| £ | HK\$ | | US\$ | US\$ |
| | | Per ordinary share | | |
| 0.57 | 7.16 | Basic earnings | 0.92 | 0.73 |
| 0.24 | 3.04 | Dividends ¹ | 0.39 | 0.34 |

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| | | | | |
|------|-------|-----------------------------------|-----------|-----------|
| 5.29 | 66.02 | Net asset value | 8.48 | 7.94 |
| | | Share information | | |
| | | US\$0.50 ordinary shares in issue | 17,868m | 17,686m |
| | | Market capitalisation | US\$136bn | US\$180bn |
| | | Closing market price per share | £4.91 | £6.51 |
| | | | Over | Over |
| | | | 1 year | 3 years |
| | | Total shareholder return to | 79.1 | 96.8 |
| | | 31 December 2011 ² | | 78.2 |
| | | Benchmarks: FTSE 100 | 97.8 | 140.3 |
| | | MSCI World | 95.7 | 114.9 |
| | | MSCI Banks | 82.7 | 60.5 |

The dividend per share of US\$0.39 shown in the accounts is the total of the dividends declared during 2011. This represents the fourth interim dividend for 2010 and the first, second and third interim dividends for 2011. As the fourth interim dividend for 2011 was declared in 2012 it will be reflected in the accounts for 2012.

Total shareholder return ('TSR') is defined as the growth in share value and declared dividend income during the 2 relevant period.

| | Year ended | |
|--|-------------|------|
| | 31 December | |
| | 2011 | 2010 |
| | % | % |
| Performance ratios | | |
| Return on average invested capital ¹ | 10.2 | 8.7 |
| Return on average ordinary shareholders' equity ² | 10.9 | 9.5 |
| Post-tax return on average total assets | 0.6 | 0.6 |
| Pre-tax return on average risk-weighted assets | 1.9 | 1.7 |
| Efficiency and revenue mix ratios | | |
| Cost efficiency ratio | 57.5 | 55.2 |
| As a percentage of total operating income: | | |
| - net interest income | 48.7 | 49.3 |
| - net fee income | 20.6 | 21.7 |
| - net trading income | 7.8 | 9.0 |
| Capital ratios | | |
| - Core tier 1 ratio | 10.1 | 10.5 |
| - Tier 1 ratio | 11.5 | 12.1 |

- Total capital ratio 14.1 15.2

Return on average invested capital is based on the profit attributable to ordinary shareholders. Average invested capital is measured as average total shareholders' equity after adding back goodwill previously amortised or written-off directly to reserves, deducting average equity preference shares issued by HSBC Holdings and deducting/(adding) average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities and property revaluation reserves. This measure reflects capital initially invested and subsequent profit.

The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by average ordinary shareholders' equity.

Consolidated Income Statement

| Year ended 31 December | | | Year ended 31 December | |
|------------------------|-----------|--|------------------------|----------|
| 2011 | | | 2011 | 2010 |
| £m | HK\$m | | US\$m | US\$m |
| 39,315 | 490,494 | Interest income | 63,005 | 58,345 |
| (13,942) | (173,940) | Interest expense | (22,343) | (18,904) |
| 25,373 | 316,554 | Net interest income | 40,662 | 39,441 |
| - | - | | | |
| 13,414 | 167,354 | Fee income | 21,497 | 21,117 |
| (2,706) | (33,763) | Fee expense | (4,337) | (3,762) |
| 10,708 | 133,591 | Net fee income | 17,160 | 17,355 |
| | 25,559 | Trading income excluding net interest income | 3,283 | 4,680 |
| 2,049 | | | | |
| 2,011 | 25,090 | Net interest income on trading activities | 3,223 | 2,530 |
| 4,060 | 50,649 | Net trading income | 6,506 | 7,210 |
| | | Changes in fair value of long-term debt issued and related derivatives | 4,161 | (258) |
| 2,596 | 32,393 | | | |
| | | Net income/(expense) from other financial instruments | | |
| (450) | (5,619) | designated at fair value | (722) | 1,478 |
| | | Net income/(expense) from financial instruments | | |
| 2,146 | 26,774 | designated at fair value | 3,439 | 1,220 |
| 566 | 7,061 | | 907 | 968 |

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| | | | | |
|----------|-----------|--|----------|----------|
| | | Gains less losses from financial investments | | |
| 93 | 1,160 | Dividend income | 149 | 112 |
| 8,032 | 100,209 | Net earned insurance premiums | 12,872 | 11,146 |
| 1,102 | 13,746 | Other operating income | 1,766 | 2,562 |
| 52,080 | 649,744 | Total operating income | 83,461 | 80,014 |
| | | Net insurance claims incurred and movement in liabilities to policyholders | | |
| (6,978) | (87,044) | | (11,181) | (11,767) |
| | | Net operating income before loan impairment charges and other credit risk provisions | | |
| 45,102 | 562,700 | | 72,280 | 68,247 |
| (7,567) | (94,409) | Loan impairment charges and other credit risk provisions | (12,127) | (14,039) |
| 37,535 | 468,291 | Net operating income | 60,153 | 54,208 |
| (13,208) | (164,778) | Employee compensation and benefits | (21,166) | (19,836) |
| (10,894) | (135,918) | General and administrative expenses | (17,459) | (15,156) |
| | | Depreciation and impairment of property, plant and equipment | | |
| (980) | (12,222) | | (1,570) | (1,713) |
| (842) | (10,510) | Amortisation and impairment of intangible assets | (1,350) | (983) |
| (25,924) | (323,428) | Total operating expenses | (41,545) | (37,688) |
| 11,611 | 144,863 | Operating profit | 18,608 | 16,520 |
| - | - | Share of profit in associates and joint ventures | | |
| 2,037 | 25,411 | | 3,264 | 2,517 |
| 13,648 | 170,274 | Profit before tax | 21,872 | 19,037 |
| - | - | Tax expense | | |
| (2,451) | (30,580) | | (3,928) | (4,846) |
| 11,197 | 139,694 | Profit for the year | 17,944 | 14,191 |
| | | Profit attributable to shareholders of the parent company | | |
| 10,481 | 130,765 | | 16,797 | 13,159 |
| | 8,929 | Profit attributable to non-controlling interests | | |
| 716 | | | 1,147 | 1,032 |

Consolidated Statement of Comprehensive Income

| | Year ended | |
|--|-------------|---------|
| | 31 December | |
| | 2011 | 2010 |
| | US\$m | US\$m |
| Profit for the year | 17,944 | 14,191 |
| Other comprehensive income/(expense) | | |
| Available-for-sale investments | 674 | 5,835 |
| - fair value gains | 1,279 | 6,368 |
| - fair value gains transferred to income statement on disposal | (820) | (1,174) |
| - amounts transferred to the income statement in respect of impairment losses | 583 | 1,118 |
| - income taxes | (368) | (477) |
| Cash flow hedges | 187 | (271) |
| - fair value losses | (581) | (178) |
| - fair value (gains)/losses transferred to income statement | 788 | (164) |
| - income taxes | (20) | 71 |
| Actuarial gains/(losses) on defined benefit plans | 1,009 | (61) |
| - before income taxes | 1,267 | (60) |
| - income taxes | (258) | (1) |
| Share of other comprehensive income/(expense) of associates and joint ventures | (710) | 107 |
| Exchange differences | (2,865) | (567) |
| Income tax attributable to exchange differences | 165 | - |
| Other comprehensive income for the year, net of tax | (1,540) | 5,043 |
| Total comprehensive income for the year | 16,404 | 19,234 |
| Total comprehensive income for the year attributable to: | | |
| - shareholders of the parent company | 15,366 | 18,087 |
| - non-controlling interests | 1,038 | 1,147 |
| | 16,404 | 19,234 |

Consolidated Balance Sheet

| Year ended 31 December | | Year ended 31 December | |
|------------------------|-------|------------------------|-------|
| 2011 | | 2011 | 2010 |
| £m | HK\$m | US\$m | US\$m |

ASSETS

| | | | | |
|-----------|------------|--|-----------|-----------|
| 83,917 | 1,009,079 | Cash and balances at central banks | 129,902 | 57,383 |
| | 63,760 | Items in the course of collection from other banks | 8,208 | 6,072 |
| 5,302 | | Hong Kong Government certificates of indebtedness | 20,922 | 19,057 |
| 13,516 | | Trading assets | 330,451 | 385,052 |
| 213,471 | 2,566,943 | Financial assets designated at fair value | 30,856 | 37,011 |
| 19,933 | 239,689 | Derivatives | 346,379 | 260,757 |
| 223,761 | 2,690,672 | Loans and advances to banks | 180,987 | 208,271 |
| 116,918 | 1,405,907 | Loans and advances to customers | 940,429 | 958,366 |
| 607,517 | 7,305,252 | Financial investments | 400,044 | 400,755 |
| 258,428 | 3,107,542 | Assets held for sale | 39,558 | 1,991 |
| 25,554 | 307,287 | Other assets | 48,699 | 41,260 |
| 31,460 | 378,294 | Current tax assets | 1,061 | 1,096 |
| 685 | 8,242 | Prepayments and accrued income | 10,059 | 11,966 |
| 6,498 | 78,138 | Interests in associates and joint ventures | 20,399 | 17,198 |
| 13,178 | 158,459 | Goodwill and intangible assets | 29,034 | 29,922 |
| 18,756 | 225,536 | Property, plant and equipment | 10,865 | 11,521 |
| 7,019 | 84,399 | Deferred tax assets | 7,726 | 7,011 |
| 4,991 | 60,016 | | | |
| 1,650,904 | 19,851,737 | Total assets | 2,555,579 | 2,454,689 |

LIABILITIES AND EQUITY

| | | | | |
|-----------|------------|--|-----------|-----------|
| | | Liabilities | | |
| 13,516 | 162,522 | Hong Kong currency notes in circulation | 20,922 | 19,057 |
| 72,883 | 876,401 | Deposits by banks | 112,822 | 110,584 |
| 810,036 | 9,740,489 | Customer accounts | 1,253,925 | 1,227,725 |
| | 67,931 | Items in the course of transmission to other banks | 8,745 | 6,663 |
| 5,649 | | Trading liabilities | 265,192 | 300,703 |
| 171,314 | 2,060,011 | Financial liabilities designated at fair value | 85,724 | 88,133 |
| | 665,904 | Derivatives | 345,380 | 258,665 |
| 55,378 | 2,682,912 | Debt securities in issue | 131,013 | 145,401 |
| 223,115 | 1,017,709 | Liabilities of disposal groups held for sale | 22,200 | 86 |
| 84,634 | 172,450 | Other liabilities | 27,967 | 27,964 |
| | | Current tax liabilities | 2,117 | 1,804 |
| 14,341 | 217,249 | Liabilities under insurance contracts | 61,259 | 58,609 |
| 18,068 | 16,445 | Accruals and deferred income | 13,106 | 13,906 |
| 1,368 | 475,860 | Provisions | 3,324 | 2,138 |
| 39,573 | 101,807 | Deferred tax liabilities | 1,518 | 1,093 |
| 8,466 | 25,821 | Retirement benefit liabilities | 3,666 | 3,856 |
| 2,147 | 11,792 | Subordinated liabilities | 30,606 | 33,387 |
| 981 | 28,477 | | | |
| 2,368 | 237,747 | | | |
| 19,771 | | | | |
| 1,543,608 | 18,561,527 | Total liabilities | 2,389,486 | 2,299,774 |

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| | | | | |
|-----------|------------|------------------------------|-----------|-----------|
| | | Equity | | |
| 5,771 | 69,399 | Called up share capital | 8,934 | 8,843 |
| 5,463 | 65,694 | Share premium account | 8,457 | 8,454 |
| 3,780 | 45,451 | Other equity instruments | 5,851 | 5,851 |
| 15,255 | 183,441 | Other reserves | 23,615 | 25,414 |
| 72,267 | 868,991 | Retained earnings | 111,868 | 99,105 |
| 102,536 | 1,232,976 | Total shareholders' equity | 158,725 | 147,667 |
| 4,760 | 57,234 | Non-controlling interests | 7,368 | 7,248 |
| 107,296 | 1,290,210 | Total equity | 166,093 | 154,915 |
| 1,650,904 | 19,851,737 | Total equity and liabilities | 2,555,579 | 2,454,689 |

Consolidated Statement of Cash Flows

| | Year ended 31 | |
|--|---------------|-----------|
| | December | |
| | 2011 | 2010 |
| | US\$m | US\$m |
| Cash flows from operating activities | | |
| Profit before tax | 21,872 | 19,037 |
| Adjustments for: | | |
| - net gain from investing activities | (1,196) | (1,698) |
| - share of profits in associates and joint ventures | (3,264) | (2,517) |
| - other non-cash items included in profit before tax | 19,878 | 18,887 |
| - change in operating assets | (7,412) | (13,267) |
| - change in operating liabilities | 44,012 | 42,272 |
| - elimination of exchange differences | 10,840 | (1,799) |
| - dividends received from associates | 304 | 441 |
| - contributions paid to defined benefit plans | (1,177) | (3,321) |
| - tax paid | (4,095) | (2,293) |
| Net cash generated from operating activities | 79,762 | 55,742 |
| Cash flows from investing activities | | |
| Purchase of financial investments | (319,008) | (341,202) |
| Proceeds from the sale and maturity of financial investments | 311,702 | 321,846 |
| Purchase of property, plant and equipment | (1,505) | (2,533) |
| Proceeds from the sale of property, plant and equipment | 300 | 4,373 |
| Proceeds from the sale of loan portfolios | - | 4,243 |
| Net purchase of intangible assets | (1,571) | (1,179) |
| Net cash outflow from acquisition of subsidiaries | - | (86) |
| Net cash inflow from disposal of subsidiaries | 216 | 466 |
| | (90) | (1,589) |

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| | | |
|--|----------|----------|
| Net cash outflow from acquisition of or increase in stake of associates | | |
| Net cash outflow from the consolidation of funds | - | (19,566) |
| Proceeds from disposal of associates and joint ventures | 25 | 254 |
| Net cash used in investing activities | (9,931) | (34,973) |
| Cash flows from financing activities | | |
| Issue of ordinary share capital | 96 | 180 |
| Issue of other equity instruments | - | 3,718 |
| Net sales/(purchases) of own shares for market-making and investment purposes | (225) | 163 |
| Net sales/(purchases) of own shares to meet share awards and share option awards | (136) | 11 |
| On exercise of share options | - | 2 |
| Subordinated loan capital issued | 7 | 4,481 |
| Subordinated loan capital repaid | (3,777) | (2,475) |
| Net cash inflow/(outflow) from change in stake in subsidiaries | 104 | (229) |
| Dividends paid to shareholders of the parent company | (5,014) | (3,441) |
| Dividends paid to non-controlling interests | (568) | (595) |
| Dividends paid to holders of other equity instruments | (573) | (413) |
| Net cash generated from financing activities | (10,086) | 1,402 |
| Net increase in cash and cash equivalents | 59,745 | 22,171 |
| Cash and cash equivalents at 1 January | 274,076 | 250,766 |
| Exchange differences in respect of cash and cash equivalents | (8,372) | 1,139 |
| Cash and cash equivalents at 31 December | 325,449 | 274,076 |

Consolidated Statement of Changes in Equity

| | Year ended 31 | |
|--|---------------|-------|
| | December | |
| | 2011 | 2010 |
| | US\$m | US\$m |
| Called up share capital | | |
| At 1 January | 8,843 | 8,705 |
| Shares issued under employee share plans | 6 | 12 |
| Shares issued in lieu of dividends and amounts arising thereon | 85 | 126 |
| At 31 December | 8,934 | 8,843 |
| Share premium | | |
| At 1 January | 8,454 | 8,413 |
| Shares issued under employee share plans | 90 | 168 |
| Shares issued in lieu of dividends and amounts arising thereon | (87) | (127) |

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| | | |
|---|---------|---------|
| At 31 December | 8,457 | 8,454 |
| Other equity instruments | | |
| At 1 January | 5,851 | 2,133 |
| Capital securities issued | - | 3,718 |
| At 31 December | 5,851 | 5,851 |
| Retained earnings ¹ | | |
| At 1 January | 99,105 | 88,737 |
| Profit for the year | 16,797 | 13,159 |
| Other comprehensive income | | |
| Actuarial gains/(losses) on defined benefit plans | 1,078 | (58) |
| Share of other comprehensive income of associates and joint ventures | (710) | 107 |
| Other comprehensive income (net of tax) | 368 | 49 |
| Total comprehensive income for the year | 17,165 | 13,208 |
| Shares issued in lieu of dividends and amounts arising thereon | 2,232 | 2,524 |
| Dividends to shareholders | (7,501) | (6,350) |
| Tax credit on distributions | 128 | 122 |
| Own shares adjustment | (361) | 174 |
| Cost of share-based payment arrangements | 1,154 | 812 |
| Income taxes on share-based payments | 21 | (14) |
| Other movements | (75) | (58) |
| Changes in ownership interests in subsidiaries that did not result in loss of control | - | (50) |
| At 31 December | 111,868 | 99,105 |
| Other reserves | | |
| Available-for-sale fair value reserve | | |
| At 1 January | (4,077) | (9,965) |
| Other comprehensive income | | |
| Available-for-sale investments | 716 | 5,671 |
| Other comprehensive income (net of tax) | 716 | 5,671 |
| Total comprehensive income for the year | 716 | 5,671 |
| Other movements | - | 217 |
| At 31 December | (3,361) | (4,077) |

The movement in reserves relating to equity-settled share-based payment arrangements is recognised in 'Retained earnings' in the 'Consolidated statement of change in equity', with effect from 1 January 2011. Previously, it was disclosed separately in a 'Share-based payment reserve' within 'Other reserves'. Comparative data have been restated accordingly. The adjustment reduced 'Other reserves' and increased 'Retained earnings' by US\$2,274m at 31 December 2011 (2010: US\$1,755m; 2009: US\$1,925m). There was no effect on basic or diluted earnings per share following this change.

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| | Year ended 31 | |
|---|---------------|---------------|
| | December | |
| | 2011 US\$m | 2010 US\$m |
| Cash flow hedging reserve | | |
| At 1 January | (285) | (26) |
| Other comprehensive income | | |
| Cash flow hedges | 190 | (266) |
| Other comprehensive income (net of tax) | 190 | (266) |
| Total comprehensive income for the year | 190 | (266) |
| Other movements | - | 7 |
| At 31 December | (95) | (285) |
| Foreign exchange reserve | | |
| At 1 January | 2,468 | 2,994 |
| Other comprehensive income | | |
| Exchange differences | (2,705) | (526) |
| Other comprehensive income (net of tax) | (2,705) | (526) |
| Total comprehensive income for the year | (2,705) | (526) |
| At 31 December | (237) | 2,468 |
| Merger reserve | | |
| At 1 January and 31 December | 27,308 | 27,308 |

| | Year ended 31 | |
|---|---------------|---------------|
| | December | |
| | 2011 US\$m | 2010 US\$m |
| Total shareholders' equity | | |
| At 1 January | 147,667 | 128,299 |
| Profit for the year | 16,797 | 13,159 |
| Other comprehensive income | | |
| Available-for-sale investments | 716 | 5,671 |
| Cash flow hedges | 190 | (266) |
| Actuarial gains/(losses) on defined benefit plans | 1,078 | (58) |
| | (710) | 107 |

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| | | |
|---|---------|---------|
| Share of other comprehensive income of associates and joint ventures | | |
| Exchange differences | (2,705) | (526) |
| Other comprehensive income (net of tax) | (1,431) | 4,928 |
| Total comprehensive income for the year | 15,366 | 18,087 |
| Shares issued under employee share plans | 96 | 180 |
| Shares issued in lieu of dividends and amounts arising thereon | 2,230 | 2,523 |
| Capital securities issued | - | 3,718 |
| Dividends to shareholders | (7,501) | (6,350) |
| Tax credit on distributions | 128 | 122 |
| Own shares adjustment | (361) | 174 |
| Cost of share-based payment arrangements | 1,154 | 812 |
| Income taxes on share-based payments | 21 | (14) |
| Other movements | (75) | 166 |
| Changes in ownership interests in subsidiaries that did not result in loss of control | - | (50) |
| At 31 December | 158,725 | 147,667 |
| Non-controlling interests | | |
| At 1 January | 7,248 | 7,362 |
| Profit for the year | 1,147 | 1,032 |
| Other comprehensive income | | |
| Available-for-sale investments | (42) | 164 |
| Cash flow hedges | (3) | (5) |
| Actuarial losses on defined benefit plans | (69) | (3) |
| Exchange differences | 5 | (41) |
| Other comprehensive income (net of tax) | (109) | 115 |
| Total comprehensive income for the year | 1,038 | 1,147 |
| Dividends to shareholders | (815) | (725) |
| Other movements | 28 | 3 |
| Acquisition and disposal of subsidiaries | (252) | (436) |
| Changes in ownership interests in subsidiaries that did not result in loss of control | 121 | (103) |
| At 31 December | 7,368 | 7,248 |

| | | |
|--|---------------|-------|
| | Year ended 31 | |
| | December | |
| | 2011 | 2010 |
| | US\$m | US\$m |

Total equity

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| | | |
|---|---------|---------|
| At 1 January | 154,915 | 135,661 |
| Profit for the year | 17,944 | 14,191 |
| Other comprehensive income | | |
| Available-for-sale investments | 674 | 5,835 |
| Cash flow hedges | 187 | (271) |
| Actuarial gains/(losses) on defined benefit plans | 1,009 | (61) |
| Share of other comprehensive income of associates and joint ventures | (710) | 107 |
| Exchange differences | (2,700) | (567) |
| Other comprehensive income (net of tax) | (1,540) | 5,043 |
| Total comprehensive income for the year | 16,404 | 19,234 |
| Shares issued under employee share plans | 96 | 180 |
| Shares issued in lieu of dividends and amounts arising thereon | 2,230 | 2,523 |
| Capital securities issued | - | 3,718 |
| Dividends to shareholders | (8,316) | (7,075) |
| Tax credit on distributions | 128 | 122 |
| Own shares adjustment | (361) | 174 |
| Cost of share-based payment arrangements | 1,154 | 812 |
| Income taxes on share-based payments | 21 | (14) |
| Other movements | (47) | 169 |
| Acquisition and disposal of subsidiaries | (252) | (436) |
| Changes in ownership interests in subsidiaries that did not result in loss of control | 121 | (153) |
| At 31 December | 166,093 | 154,915 |

Additional Information

1. Basis of preparation and accounting policies

The basis of preparation and summary of significant accounting policies applicable to the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings can be found in Notes 1 and 2 of the Annual Report and Accounts 2011.

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 affecting the consolidated and separate financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC's financial statements for the year ended 31 December 2011 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC') and its predecessor body.

During 2011, HSBC adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings.

2. Dividends

The Directors have declared a fourth interim dividend for 2011 of US\$0.14 per ordinary share, a distribution of approximately US\$2,515m. The fourth interim dividend will be payable on 2 May 2012, to holders of record on 15 March 2012 on the Hong Kong Overseas Branch Register and 16 March 2012 on the Principal Register in the United Kingdom or the Bermuda Overseas Branch Register.

The dividend will be payable in cash, in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11 am on 23 April 2012, and with a scrip dividend alternative. Particulars of these arrangements will be sent to shareholders on or about 27 March 2012 and elections must be received by 19 April 2012. As this dividend was declared after the balance sheet date, no liability has been recorded on the Financial Statements at 31 December 2011.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 2 May 2012 to the holders of record on 16 March 2012. The dividend will be payable by Euroclear France in cash, in euros at the forward exchange rate quoted by HSBC France on 23 April 2012, or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 5 March 2012 and 22 March 2012.

The dividend will be payable on American Depositary Shares ('ADSs'), each of which represents five ordinary shares, on 2 May 2012 to holders of record on 16 March 2012. The dividend of US\$0.70 per ADS will be payable by the depository in cash in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depository on or before 12 April 2012. Alternatively, the cash dividend may be invested in additional ADSs for participants in the dividend reinvestment plan operated by the depository.

Ordinary shares will be quoted ex-dividend in London, Hong Kong, Paris and Bermuda on 14 March 2012. The ADSs will be quoted ex-dividend in New York on 14 March 2012.

Any person who has acquired ordinary shares registered on the Hong Kong Overseas Branch Register but who has not lodged the share transfer with the Hong Kong Overseas Branch Registrar should do so before 4.00 pm on 15 March 2012 in order to receive the dividend.

Any person who has acquired ordinary shares registered on the Principal Register in the United Kingdom or on the Bermuda Overseas Branch Register but who has not lodged the share transfer with the Principal Registrar or the Bermuda Overseas Branch Registrar respectively, should do so before 4.00 pm on 16 March 2012 in order to receive the dividend.

Removals of ordinary shares may not be made to or from the Hong Kong Overseas Branch Register on 16 March 2012. Accordingly any person who wishes to remove ordinary shares to the Hong Kong Overseas Branch Register must lodge the removal request with the Principal Registrar in the United Kingdom or the Bermuda Branch Registrar by 4.00 pm on 14 March 2012; any person who wishes to remove ordinary shares from the Hong Kong Overseas Branch Register must lodge the removal request with the Hong Kong Branch Registrar by 4.00 pm on 15 March 2012.

Transfers of American Depositary Shares should be lodged with the depository by 12 noon on 16 March 2012 in order to receive the dividend.

Dividends declared on HSBC Holdings shares during 2011 were as follows:

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| | 2011 | | 2010 | | | |
|--|----------------------|----------------|------------------------------|----------------------|----------------|------------------------------|
| | Per share US\$ | Total US\$m | Settled in scrip US\$m | Per share US\$ | Total US\$m | Settled in scrip US\$m |
| Dividends declared on ordinary shares | | | | | | |
| In respect of previous year: | | | | | | |
| - fourth interim dividend | 0.12 | 2,119 | 1,130 | 0.10 | 1,733 | 838 |
| In respect of current year: | | | | | | |
| - first interim dividend | 0.09 | 1,601 | 204 | 0.08 | 1,394 | 746 |
| - second interim dividend | 0.09 | 1,603 | 178 | 0.08 | 1,402 | 735 |
| - third interim dividend | 0.09 | 1,605 | 720 | 0.08 | 1,408 | 205 |
| | 0.39 | 6,928 | 2,232 | 0.34 | 5,937 | 2,524 |
| Quarterly dividends on preference shares classified as equity | | | | | | |
| March dividend | 15.50 | 22 | | 15.50 | 22 | |
| June dividend | 15.50 | 23 | | 15.50 | 23 | |
| September dividend | 15.50 | 22 | | 15.50 | 22 | |
| December dividend | 15.50 | 23 | | 15.50 | 23 | |
| | 62.00 | 90 | | 62.00 | 90 | |

| | 2011 | | 2010 | |
|--|----------------------|----------------|----------------------|----------------|
| | Per share US\$ | Total US\$m | Per share US\$ | Total US\$m |
| Quarterly coupons on capital securities classified as equity ¹ | | | | |
| January coupon | 0.508 | 44 | 0.508 | 44 |
| March coupon | 0.500 | 76 | - | - |
| April coupon | 0.508 | 45 | 0.508 | 45 |
| June coupon | 0.500 | 76 | - | - |
| July coupon | 0.508 | 45 | 0.508 | 45 |
| September coupon | 0.500 | 76 | 0.450 | 68 |
| October coupon | 0.508 | 45 | 0.508 | 45 |
| December coupon | 0.500 | 76 | 0.500 | 76 |
| | 4.032 | 483 | 2.982 | 323 |

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1 HSBC Holdings issued perpetual subordinated capital securities of US\$3,800m in June 2010 and US\$2,200m in April 2008, which are classified as equity under IFRSs.

On 13 February 2012, the Directors declared quarterly dividends of US\$15.50 per non-cumulative Series A Dollar Preference Share (equivalent to a dividend of US\$0.3875 per Series A American Depository Share, each of which represents one-fortieth of a Series A dollar preference share) and £0.01 per Series A Sterling Preference Share for payment on 15 March 2012 to the holders of record on 1 March 2012.

On 17 January 2012, HSBC paid a coupon on the Capital Securities of US\$0.508 per security, a distribution of US\$44 million. No liability is recorded in the balance sheet at 31 December 2011 in respect of this coupon payment.

3. Earnings and dividends per ordinary share

| | Year ended 31 | |
|-------------------------------------|---------------|-------|
| | December | |
| | 2011 | 2010 |
| | US\$ | US\$ |
| Basic earnings per ordinary share | 0.92 | 0.73 |
| Diluted earnings per ordinary share | 0.91 | 0.72 |
| Dividends per ordinary share | 0.39 | 0.34 |
| Net asset value at year-end | 8.48 | 7.94 |
| Dividend pay out ratio ¹ | 42.4% | 46.6% |

¹ Dividends per ordinary share expressed as a percentage of basic earnings per ordinary share.

Basic earnings per ordinary share was calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding, excluding own shares held. Diluted earnings per ordinary share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive potential ordinary shares, by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares.

Profit attributable to the ordinary shareholders of the parent company

| | Year ended 31 | |
|--|---------------|--------|
| | December | |
| | 2011 | 2010 |
| | US\$m | US\$m |
| Profit attributable to shareholders of the parent company | 16,797 | 13,159 |
| Dividend payable on preference shares classified as equity | (90) | (90) |
| Coupon payable on capital securities classified as equity | (483) | (323) |
| | 16,224 | 12,746 |

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Profit attributable to the ordinary shareholders of the parent company

Basic and diluted earnings per share

| | Profit US\$m | 2011 Number of shares (millions) | Per share US\$ | Profit US\$m | 2010 Number of shares (millions) | Per share US\$ |
|---|-----------------|--|----------------------|-----------------|--|----------------------|
| Basic | 16,224 | 17,700 | 0.92 | 12,746 | 17,404 | 0.73 |
| Effect of dilutive potential ordinary shares | | 222 | | | 229 | |
| Diluted | 16,224 | 17,922 | 0.91 | 12,746 | 17,633 | 0.72 |

4. Tax expense

| | Year ended 31 December | |
|--------------------|---------------------------|---------------|
| | 2011 US\$m | 2010 US\$m |
| UK corporation tax | 820 | 383 |
| Overseas tax | 4,255 | 3,328 |
| Current tax | 5,075 | 3,711 |
| Deferred tax | (1,147) | 1,135 |
| Tax expense | 3,928 | 4,846 |
| Effective tax rate | 18.0% | 25.5% |

HSBC Holdings and its subsidiaries in the United Kingdom provided for UK corporation tax at 26.5% (2010: 28%). Overseas tax included Hong Kong profits tax of US\$997m (2010: US\$962m) provided at the rate of 16.5% (2010: 16.5%) on the profits for the year assessable in Hong Kong. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operate.

Analysis of tax expense

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2011 US\$m | 2010 US\$m |
| Taxation at UK corporation tax rate of 26.5% (2010: 28%) | 5,796 (492) | 5,330 (744) |

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Effect of taxing overseas profits in principal locations at different rates

| | | | |
|---|-------|---|-------|
| Adjustments in respect of prior period liabilities | 495 | - | |
| Effect of profit in associates and joint ventures | (865) | | (758) |
| Deferred tax temporary differences not recognised/(previously not recognised) | (923) | | (6) |
| Non-taxable income and gains | (613) | | (700) |
| Permanent disallowables | 467 | | 355 |
| Tax impact of intra-group transfer of subsidiary | - | | 1,216 |
| Other items | 63 | | 153 |
| Overall tax expense | 3,928 | | 4,846 |

5. Analysis of net fee income

| | Half-year to | | | Half-year to | | |
|--|--------------|------------------|---------|--------------|------------------|---------|
| | 30 June 2011 | 31 December 2011 | 2011 | 30 June 2010 | 31 December 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Cards | 1,977 | 1,978 | 3,955 | 1,900 | 1,901 | 3,801 |
| Account services | 1,846 | 1,824 | 3,670 | 1,821 | 1,811 | 3,632 |
| Funds under management | 1,414 | 1,339 | 2,753 | 1,181 | 1,330 | 2,511 |
| Credit facilities | 849 | 900 | 1,749 | 827 | 808 | 1,635 |
| Broking income | 933 | 778 | 1,711 | 766 | 1,023 | 1,789 |
| Imports/exports | 552 | 551 | 1,103 | 466 | 525 | 991 |
| Insurance | 545 | 507 | 1,052 | 578 | 569 | 1,147 |
| Remittances | 371 | 399 | 770 | 329 | 351 | 680 |
| Global custody | 391 | 360 | 751 | 439 | 261 | 700 |
| Unit trusts | 374 | 283 | 657 | 267 | 293 | 560 |
| Underwriting | 332 | 246 | 578 | 264 | 359 | 623 |
| Corporate finance | 235 | 206 | 441 | 248 | 192 | 440 |
| Trust income | 148 | 146 | 294 | 141 | 150 | 291 |
| Investment contracts | 65 | 71 | 136 | 46 | 63 | 109 |
| Mortgage servicing | 56 | 53 | 109 | 60 | 58 | 118 |
| Taxpayer financial services | 1 | 1 | 2 | 91 | (18) | 73 |
| Maintenance income on operating leases | - | - | - | 53 | 46 | 99 |
| Other | 855 | 911 | 1,766 | 928 | 990 | 1,918 |
| Total fee income | 10,944 | 10,553 | 21,497 | 10,405 | 10,712 | 21,117 |
| Less: fee expense | (2,137) | (2,200) | (4,337) | (1,887) | (1,875) | (3,762) |
| Total net fee income | 8,807 | 8,353 | 17,160 | 8,518 | 8,837 | 17,355 |

6. Loan impairment charges

| | Half-year to | | | Half-year to | | |
|--|--------------------------|------------------------------|---------------|--------------------------|------------------------------|---------------|
| | 30 June 2011 US\$m | 31 December 2011 US\$m | 2011 US\$m | 30 June 2010 US\$m | 31 December 2010 US\$m | 2010 US\$m |
| Individually assessed impairment allowances: | | | | | | |
| - Net new allowances | 743 | 1,363 | 2,106 | 1,129 | 1,641 | 2,770 |
| - Recoveries | (105) | (86) | (191) | (60) | (85) | (145) |
| | 638 | 1,277 | 1,915 | 1,069 | 1,556 | 2,625 |
| Collectively assessed impairment allowances: | | | | | | |
| - Net new allowances | 4,960 | 5,865 | 10,825 | 6,558 | 5,240 | 11,798 |
| - Recoveries | (625) | (610) | (1,235) | (393) | (482) | (875) |
| | 4,335 | 5,255 | 9,590 | 6,165 | 4,758 | 10,923 |
| Total charge for impairment losses | 4,973 | 6,532 | 11,505 | 7,234 | 6,314 | 13,548 |
| Banks | 1 | (17) | (16) | 12 | - | 12 |
| Customers | 4,972 | 6,549 | 11,521 | 7,222 | 6,314 | 13,536 |

7. Notes on the statement of cash flows

| | Year ended 31 December | |
|--|---------------------------|---------------|
| | 2011 US\$m | 2010 US\$m |
| Other non-cash items included in profit before tax | | |
| Depreciation, amortisation and impairment | 3,135 | 2,801 |
| Gains arising from dilution of interests in associates | (208) | (188) |
| Revaluations on investment property | (118) | (93) |
| Share-based payment expense | 1,162 | 812 |
| Loan impairment losses gross of recoveries and other credit risk provisions | 13,553 | 15,059 |
| Provisions | 2,199 | 680 |
| Impairment of financial investments | 808 | 105 |
| Charge/(credit) for defined benefit plans | (140) | 526 |
| Accretion of discounts and amortisation of premiums | (513) | (815) |
| | 19,878 | 18,887 |

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| | | |
|---|----------|----------|
| Change in operating assets | | |
| Change in prepayments and accrued income | 1,907 | 457 |
| Change in net trading securities and net derivatives | 27,058 | 60,337 |
| Change in loans and advances to banks | 2,618 | 5,213 |
| Change in loans and advances to customers | (30,853) | (79,283) |
| Change in financial assets designated at fair value | (583) | 154 |
| Change in other assets | (7,559) | (145) |
| | (7,412) | (13,267) |
| Change in operating liabilities | | |
| Change in accruals and deferred income | (800) | 716 |
| Change in deposits by banks | 2,238 | (14,288) |
| Change in customer accounts | 48,401 | 68,691 |
| Change in debt securities in issue | (14,388) | (1,495) |
| Change in financial liabilities designated at fair value | 5,468 | 5,659 |
| Change in other liabilities | 3,093 | (17,011) |
| | 44,012 | 42,272 |
| Cash and cash equivalents | | |
| Cash and balances at central banks | 129,902 | 57,383 |
| Items in the course of collection from other banks | 8,208 | 6,072 |
| Loans and advances to banks of one month or less | 169,858 | 189,197 |
| Treasury bills, other bills and certificates of deposit less than three months | 26,226 | 28,087 |
| Less: items in the course of transmission to other banks | (8,745) | (6,663) |
| | 325,449 | 274,076 |
| Interest and dividends | | |
| Interest paid | (23,125) | (21,405) |
| Interest received | 66,734 | 63,696 |
| Dividends received | 602 | 563 |

8. Segmental analysis

HSBC's operating segments are organised into six geographical regions, Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa ('MENA'), North America and Latin America.

Geographical information is classified by the location of the principal operations of the subsidiary or, for The Hongkong and Shanghai Banking Corporation, HSBC Bank, HSBC Bank Middle East and HSBC Bank USA, by the location of the branch responsible for reporting the results or advancing the funds.

HSBC's chief operating decision-maker is the Group Management Board ('GMB') which operates as a general management committee under the direct authority of the Board. Information provided to HSBC's chief operating decision-maker to make decisions about allocating resources to, and assessing the performance of, operating segments is measured in accordance with IFRSs. The financial information shown below includes the effects of intra-HSBC

transactions between operating segments which are conducted on an arm's length basis and eliminated in a separate column. Shared costs are included in operating segments on the basis of the actual recharges made.

Products and services

HSBC provides a comprehensive range of banking and related financial services to its customers in its six geographical regions. The products and services offered to customers are organised by global businesses.

Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).

Commercial Banking ('CMB') product offerings include the provision of receivables financing services, payments and cash management, international trade finance, treasury and capital markets, commercial cards, insurance, cash and derivatives in foreign exchange and rates, and online and direct banking offerings.

Global Banking and Markets ('GB&M') provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principal investment activities.

Global Private Banking ('GPB') provides a range of services to high net worth individuals and families with complex and international needs.

With effect from 1 March 2011, our Global Asset Management business was moved from Global Banking and Markets to Retail Banking and Wealth Management.

Financial information

In the following segmental analysis, the benefit of shareholders' funds impacts the analysis only to the extent that these funds are actually allocated to businesses in the segment by way of intra-HSBC capital and funding structures.

Europe

| | Half-year to | | | Half-year to | | |
|---------------------|--------------|-------------|---------|--------------|-------------|---------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Interest income | 9,075 | 9,400 | 18,475 | 8,811 | 8,739 | 17,550 |
| Interest expense | (3,509) | (3,965) | (7,474) | (3,009) | (3,291) | (6,300) |
| Net interest income | 5,566 | 5,435 | 11,001 | 5,802 | 5,448 | 11,250 |
| | | - | | | | |
| Fee income | 4,255 | 4,059 | 8,314 | 4,111 | 4,223 | 8,334 |
| Fee expense | (1,124) | (954) | (2,078) | (934) | (1,029) | (1,963) |
| Net fee income | 3,131 | 3,105 | 6,236 | 3,177 | 3,194 | 6,371 |

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| | | | | | | |
|--|---------|---------|----------|---------|---------|----------|
| Net trading income | 2,007 | 154 | 2,161 | 1,604 | 1,259 | 2,863 |
| Changes in fair value of long-term debt issued and related derivatives | (371) | 3,551 | 3,180 | 715 | (1,080) | (365) |
| Net income/(expense) from other financial instruments designated at fair value | 131 | (843) | (712) | (142) | 789 | 647 |
| Net income/(expense) from financial instruments designated at fair value | (240) | 2,708 | 2,468 | 573 | (291) | 282 |
| Gains less losses from financial investments | 312 | 203 | 515 | 237 | 249 | 486 |
| Dividend income | 25 | 24 | 49 | 14 | 6 | 20 |
| Net earned insurance premiums | 2,386 | 1,750 | 4,136 | 2,137 | 1,930 | 4,067 |
| Other operating income | 652 | 527 | 1,179 | 1,141 | 976 | 2,117 |
| Total operating income | 13,839 | 13,906 | 27,745 | 14,685 | 12,771 | 27,456 |
| Net insurance claims incurred and movement in liabilities to policyholders | (2,499) | (1,000) | (3,499) | (1,964) | (2,742) | (4,706) |
| Net operating income before loan impairment charges and other credit risk provisions | 11,340 | 12,906 | 24,246 | 12,721 | 10,029 | 22,750 |
| Loan impairment charges and other credit risk provisions | (1,173) | (1,339) | (2,512) | (1,501) | (1,519) | (3,020) |
| Net operating income | 10,167 | 11,567 | 21,734 | 11,220 | 8,510 | 19,730 |
| Total operating expenses | (8,014) | (9,055) | (17,069) | (7,704) | (7,741) | (15,445) |
| Operating profit | 2,153 | 2,512 | 4,665 | 3,516 | 769 | 4,285 |
| Share of profit/(loss) in associates and joint ventures | (6) | 12 | 6 | 5 | 12 | 17 |
| Profit before tax | 2,147 | 2,524 | 4,671 | 3,521 | 781 | 4,302 |
| Tax expense | (893) | (696) | (1,589) | (910) | (96) | (1,006) |
| Profit for the year | 1,254 | 1,828 | 3,082 | 2,611 | 685 | 3,296 |

Hong Kong

| | Half-year to | | | Half-year to | | |
|---|--------------|-------------|---------|--------------|-------------|---------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Interest income | 2,716 | 2,976 | 5,692 | 2,414 | 2,688 | 5,102 |
| Interest expense | (467) | (534) | (1,001) | (420) | (436) | (856) |
| Net interest income | 2,249 | 2,442 | 4,691 | 1,994 | 2,252 | 4,246 |
| Fee income | 1,885 | 1,756 | 3,641 | 1,626 | 1,834 | 3,460 |
| Fee expense | (273) | (271) | (544) | (231) | (267) | (498) |
| Net fee income | 1,612 | 1,485 | 3,097 | 1,395 | 1,567 | 2,962 |
| Net trading income | 669 | 520 | 1,189 | 688 | 624 | 1,312 |
| Changes in fair value of long-term debt issued and related derivatives | - | - | - | (2) | - | (2) |
| Net income/(expense) from other financial instruments designated at fair value | 26 | (563) | (537) | (28) | 408 | 380 |
| Net income/(expense) from financial instruments designated at fair value | 26 | (563) | (537) | (30) | 408 | 378 |
| Gains less losses from financial investments | 18 | 6 | 24 | 111 | (13) | 98 |
| Dividend income | 31 | 8 | 39 | 13 | 17 | 30 |
| Net earned insurance premiums | 2,588 | 2,500 | 5,088 | 2,248 | 2,084 | 4,332 |
| Other operating income | 911 | 773 | 1,684 | 644 | 962 | 1,606 |
| Total operating income | 8,104 | 7,171 | 15,275 | 7,063 | 7,901 | 14,964 |
| Net insurance claims incurred and movement in liabilities to policyholders | (2,690) | (1,903) | (4,593) | (2,167) | (2,595) | (4,762) |
| Net operating income before loan impairment charges and other credit risk provisions | 5,414 | 5,268 | 10,682 | 4,896 | 5,306 | 10,202 |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Loan impairment charges and other credit risk provisions | (25) | (131) | (156) | (63) | (51) | (114) |
| Net operating income | 5,389 | 5,137 | 10,526 | 4,833 | 5,255 | 10,088 |
| Total operating expenses | (2,339) | (2,419) | (4,758) | (1,968) | (2,463) | (4,431) |
| Operating profit | 3,050 | 2,718 | 5,768 | 2,865 | 2,792 | 5,657 |
| Share of profit in associates and joint ventures | 31 | 24 | 55 | 12 | 23 | 35 |
| Profit before tax | 3,081 | 2,742 | 5,823 | 2,877 | 2,815 | 5,692 |
| Tax expense | (539) | (504) | (1,043) | (476) | (511) | (987) |
| Profit for the year | 2,542 | 2,238 | 4,780 | 2,401 | 2,304 | 4,705 |

Rest of Asia-Pacific

| | Half-year to | | | Half-year to | | |
|--|--------------------------|------------------------------|---------------|--------------------------|------------------------------|---------------|
| | 30 June 2011 US\$m | 31 December 2011 US\$m | 2011 US\$m | 30 June 2010 US\$m | 31 December 2010 US\$m | 2010 US\$m |
| Interest income | 4,088 | 4,643 | 8,731 | 2,976 | 3,456 | 6,432 |
| Interest expense | (1,707) | (1,922) | (3,629) | (1,154) | (1,450) | (2,604) |
| Net interest income | 2,381 | 2,721 | 5,102 | 1,822 | 2,006 | 3,828 |
| Fee income | 1,372 | 1,290 | 2,662 | 1,138 | 1,261 | 2,399 |
| Fee expense | (255) | (296) | (551) | (204) | (263) | (467) |
| Net fee income | 1,117 | 994 | 2,111 | 934 | 998 | 1,932 |
| Net trading income | 862 | 796 | 1,658 | 780 | 838 | 1,618 |
| Changes in fair value of long-term debt issued and related derivatives | (1) | 5 | 4 | - | (2) | (2) |
| Net income/(expense) from other financial instruments designated at fair value | 4 | (24) | (20) | (2) | 28 | 26 |
| Net income/(expense) from financial instruments | | | | | | |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| designated at fair value | 3 | (19) | (16) | (2) | 26 | 24 |
| Gains less losses from financial investments | (22) | (1) | (23) | 39 | 107 | 146 |
| Dividend income | 1 | 1 | 2 | 1 | - | 1 |
| Net earned insurance premiums | 340 | 419 | 759 | 198 | 250 | 448 |
| Other operating income | 932 | 779 | 1,711 | 877 | 721 | 1,598 |
| Total operating income | 5,614 | 5,690 | 11,304 | 4,649 | 4,946 | 9,595 |
| Net insurance claims incurred and movement in liabilities to policyholders | (266) | (325) | (591) | (151) | (212) | (363) |
| Net operating income before loan impairment charges and other credit risk provisions | 5,348 | 5,365 | 10,713 | 4,498 | 4,734 | 9,232 |
| Loan impairment charges and other credit risk provisions | (100) | (167) | (267) | (147) | (292) | (439) |
| Net operating income | 5,248 | 5,198 | 10,446 | 4,351 | 4,442 | 8,793 |
| Total operating expenses | (2,836) | (2,970) | (5,806) | (2,417) | (2,726) | (5,143) |
| Operating profit | 2,412 | 2,228 | 4,640 | 1,934 | 1,716 | 3,650 |
| Share of profit in associates and joint ventures | 1,330 | 1,501 | 2,831 | 1,051 | 1,201 | 2,252 |
| Profit before tax | 3,742 | 3,729 | 7,471 | 2,985 | 2,917 | 5,902 |
| Tax expense | (658) | (657) | (1,315) | (487) | (475) | (962) |
| Profit for the year | 3,084 | 3,072 | 6,156 | 2,498 | 2,442 | 4,940 |

Middle East and North Africa

| | Half-year to | | Half-year to | | |
|--|--------------|-------------|--------------|-------------|------|
| | 30 June | 31 December | 30 June | 31 December | |
| | 2011 | 2011 | 2010 | 2010 | 2010 |

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| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
|--|-------|-------|-------|-------|-------|-------|
| Interest income | 995 | 1,044 | 2,039 | 979 | 1,024 | 2,003 |
| Interest expense | (322) | (285) | (607) | (312) | (324) | (636) |
| Net interest income | 673 | 759 | 1,432 | 667 | 700 | 1,367 |
| Fee income | 367 | 340 | 707 | 382 | 355 | 737 |
| Fee expense | (40) | (40) | (80) | (26) | (34) | (60) |
| Net fee income | 327 | 300 | 627 | 356 | 321 | 677 |
| Net trading income | 237 | 245 | 482 | 194 | 176 | 370 |
| Changes in fair value of long-term debt issued and related derivatives | (7) | 17 | 10 | - | - | - |
| Net income/(expense) from other financial instruments designated at fair value | 1 | (1) | - | - | - | - |
| Net income/(expense) from financial instruments designated at fair value | (6) | 16 | 10 | - | - | - |
| Gains less losses from financial investments | (6) | (2) | (8) | (1) | (2) | (3) |
| Dividend income | 2 | 3 | 5 | 5 | 2 | 7 |
| Other operating income/(expense) | 9 | 50 | 59 | (33) | 25 | (8) |
| Total operating income | 1,236 | 1,371 | 2,607 | 1,188 | 1,222 | 2,410 |
| Net operating income before loan impairment charges and other credit risk provisions | 1,236 | 1,371 | 2,607 | 1,188 | 1,222 | 2,410 |
| Loan impairment charges and other credit risk provisions | (99) | (194) | (293) | (438) | (189) | (627) |
| Net operating income | 1,137 | 1,177 | 2,314 | 750 | 1,033 | 1,783 |

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| | | | | | | |
|--|-------|-------|---------|-------|-------|---------|
| Total operating expenses | (574) | (585) | (1,159) | (519) | (559) | (1,078) |
| Operating profit | 563 | 592 | 1,155 | 231 | 474 | 705 |
| Share of profit in associates and joint ventures | 184 | 153 | 337 | 115 | 72 | 187 |
| Profit before tax | 747 | 745 | 1,492 | 346 | 546 | 892 |
| Tax expense | (126) | (140) | (266) | (60) | (78) | (138) |
| Profit for the year | 621 | 605 | 1,226 | 286 | 468 | 754 |

North America

| | Half-year to | | | Half-year to | | |
|--|--------------|-------------|---------|--------------|-------------|---------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Interest income | 7,790 | 7,379 | 15,169 | 8,637 | 8,144 | 16,781 |
| Interest expense | (1,941) | (1,748) | (3,689) | (2,284) | (2,058) | (4,342) |
| Net interest income | 5,849 | 5,631 | 11,480 | 6,353 | 6,086 | 12,439 |
| Fee income | 2,228 | 2,194 | 4,422 | 2,329 | 2,195 | 4,524 |
| Fee expense | (510) | (604) | (1,114) | (528) | (332) | (860) |
| Net fee income | 1,718 | 1,590 | 3,308 | 1,801 | 1,863 | 3,664 |
| Net trading income/(expense) | 448 | (810) | (362) | (67) | 381 | 314 |
| Changes in fair value of long-term debt issued and related derivatives | (115) | 1,082 | 967 | 412 | (301) | 111 |
| Net income/(expense) from other financial instruments designated at fair value | (4) | 1 | (3) | 2 | (2) | - |
| Net income/(expense) from financial instruments designated at fair value | (119) | 1,083 | 964 | 414 | (303) | 111 |
| Gains less losses from financial investments | 110 | 152 | 262 | 118 | 25 | 143 |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Dividend income | 21 | 19 | 40 | 21 | 21 | 42 |
| Net earned insurance premiums | 118 | 118 | 236 | 126 | 119 | 245 |
| Other operating income/(expense) | 168 | 58 | 226 | 306 | (73) | 233 |
| Total operating income | 8,313 | 7,841 | 16,154 | 9,072 | 8,119 | 17,191 |
| Net insurance claims incurred and movement in liabilities to policyholders | (73) | (81) | (154) | (72) | (72) | (144) |
| Net operating income before loan impairment charges and other credit risk provisions | 8,240 | 7,760 | 16,000 | 9,000 | 8,047 | 17,047 |
| Loan impairment charges and other credit risk provisions | (3,049) | (3,967) | (7,016) | (4,554) | (3,741) | (8,295) |
| Net operating income | 5,191 | 3,793 | 8,984 | 4,446 | 4,306 | 8,752 |
| Total operating expenses | (4,602) | (4,317) | (8,919) | (3,957) | (4,365) | (8,322) |
| Operating profit/(loss) | 589 | (524) | 65 | 489 | (59) | 430 |
| Share of profit in associates and joint ventures | 17 | 18 | 35 | 3 | 21 | 24 |
| Profit/(loss) before tax | 606 | (506) | 100 | 492 | (38) | 454 |
| Tax income/(expense) | 804 | 154 | 958 | (1,676) | 496 | (1,180) |
| Profit/(loss) for the year | 1,410 | (352) | 1,058 | (1,184) | 458 | (726) |

Latin America

| | Half-year to | | | Half-year to | | |
|------------------|--------------|-------------|---------|--------------|-------------|---------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Interest income | 6,977 | | 7,197 | 5,434 | 6,156 | 11,590 |
| Interest expense | (3,460) | | (3,758) | (2,315) | (2,964) | (5,279) |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Net interest income | 3,517 | 3,439 | 6,956 | 3,119 | 3,192 | 6,311 |
| Fee income | 1,295 | 1,306 | 2,601 | 1,140 | 1,226 | 2,366 |
| Fee expense | (393) | (427) | (820) | (285) | (332) | (617) |
| Net fee income | 902 | 879 | 1,781 | 855 | 894 | 1,749 |
| Net trading income | 589 | 789 | 1,378 | 353 | 380 | 733 |
| Net income from other financial instruments designated at fair value | 236 | 314 | 550 | 130 | 295 | 425 |
| Net income from financial instruments designated at fair value | 236 | 314 | 550 | 130 | 295 | 425 |
| Gains less losses from financial investments | 73 | 64 | 137 | 53 | 45 | 98 |
| Dividend income | 7 | 7 | 14 | 5 | 7 | 12 |
| Net earned insurance premiums | 1,268 | 1,385 | 2,653 | 957 | 1,097 | 2,054 |
| Other operating income | 180 | 148 | 328 | 10 | 131 | 141 |
| Total operating income | 6,772 | 7,025 | 13,797 | 5,482 | 6,041 | 11,523 |
| Net insurance claims incurred and movement in liabilities to policyholders | (1,089) | (1,255) | (2,344) | (767) | (1,025) | (1,792) |
| Net operating income before loan impairment charges and other credit risk provisions | 5,683 | 5,770 | 11,453 | 4,715 | 5,016 | 9,731 |
| Loan impairment charges and other credit risk provisions | (820) | (1,063) | (1,883) | (820) | (724) | (1,544) |
| Net operating income | 4,863 | 4,707 | 9,570 | 3,895 | 4,292 | 8,187 |
| Total operating expenses | (3,712) | (3,543) | (7,255) | (3,013) | (3,381) | (6,394) |
| Operating profit | 1,151 | 1,164 | 2,315 | 882 | 911 | 1,793 |
| Share of profit in associates and joint ventures | - | - | - | 1 | 1 | 2 |
| Profit before tax | 1,151 | 1,164 | 2,315 | 883 | 912 | 1,795 |

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| | | | | | | |
|---------------------|-------|-------|-------|-------|-------|-------|
| Tax expense | (300) | (373) | (673) | (247) | (326) | (573) |
| Profit for the year | 851 | 791 | 1,642 | 636 | 586 | 1,222 |

Other information about the profit/(loss) for the year

| | Europe US\$m | Hong Kong US\$m | Rest of Asia- Pacific US\$m | Middle East and North Africa US\$m | North America US\$m | Latin America US\$m | Intra- HSBC items US\$m | Total US\$m |
|---|-----------------|-----------------------|--------------------------------------|---|---------------------------|---------------------------|----------------------------------|----------------|
| Year ended 31 December 2011 | | | | | | | | |
| External | 20,676 | 9,442 | 9,396 | 2,316 | 8,744 | 9,579 | - | 60,153 |
| Inter-segment | 1,058 | 1,084 | 1,050 | (2) | 240 | (9) | (3,421) | - |
| Net operating income | 21,734 | 10,526 | 10,446 | 2,314 | 8,984 | 9,570 | (3,421) | 60,153 |
| Profit for the year includes the following significant non-cash items: | | | | | | | | |
| Depreciation, amortisation and impairment | 975 | 424 | 249 | 42 | 802 | 643 | - | 3,135 |
| Loan impairment losses gross of recoveries and other credit risk provisions | 3,085 | 202 | 453 | 395 | 7,147 | 2,271 | - | 13,553 |
| Impairment of financial investments | 705 | 55 | 25 | 13 | 9 | 1 | - | 808 |
| Changes in fair value of long-term debt and related derivatives | 3,180 | - | 4 | 10 | 967 | - | - | 4,161 |
| Restructuring costs | 357 | 47 | 34 | 27 | 73 | 259 | - | 797 |
| Year ended 31 December 2010 | | | | | | | | |
| External | 18,881 | 9,170 | 7,728 | 1,774 | 8,504 | 8,151 | - | 54,208 |
| Inter-segment | 849 | 918 | 1,065 | 9 | 248 | 36 | (3,125) | - |
| Net operating income | 19,730 | 10,088 | 8,793 | 1,783 | 8,752 | 8,187 | (3,125) | 54,208 |

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Profit for the year includes the

following significant non-cash items:

| | | | | | | | | |
|---|-------|-----|-----|-----|-------|-------|---|--------|
| Depreciation, amortisation and impairment | 1,071 | 404 | 243 | 49 | 576 | 458 | - | 2,801 |
| Loan impairment losses gross of recoveries and other credit risk provisions | 3,303 | 169 | 615 | 684 | 8,476 | 1,812 | - | 15,059 |
| Impairment of financial investments | 33 | 41 | 4 | 5 | 21 | 1 | - | 105 |
| Changes in fair value of long-term debt and related derivatives | (365) | (2) | (2) | - | 111 | - | - | (258) |
| Restructuring costs | 86 | 15 | 36 | 5 | 13 | 3 | - | 158 |

Balance sheet information

| | Europe US\$m | Hong Kong US\$m | Rest of Asia- Pacific US\$m | Middle East and North Africa US\$m | North America US\$m | Latin America US\$m | Intra- HSBC items US\$m | Total US\$m |
|--|-----------------|-----------------------|--------------------------------------|---|---------------------------|---------------------------|----------------------------------|----------------|
| At 31 December 2011 | | | | | | | | |
| Loans and advances to customers (net) | 434,336 | 157,665 | 123,868 | 25,875 | 142,747 | 55,938 | - | 940,429 |
| Interests in associates and joint ventures | 150 | 196 | 17,916 | 2,036 | 101 | - | - | 20,399 |
| Total assets | 1,281,945 | 473,024 | 317,816 | 57,464 | 504,302 | 144,889 | (223,861) | 2,555,579 |
| Customer accounts | 493,404 | 315,345 | 174,012 | 36,422 | 155,982 | 78,760 | - | 1,253,925 |
| Total liabilities | 1,224,386 | 458,179 | 288,485 | 49,005 | 464,990 | 128,302 | (223,861) | 2,389,486 |
| Capital expenditure incurred ¹ | 1,177 | 432 | 207 | 29 | 342 | 951 | - | 3,138 |

At 31 December 2010

| | | | | | | | | |
|--|-----------|---------|---------|--------|---------|---------|-----------|-----------|
| Loans and advances to customers (net) | 435,799 | 140,691 | 108,731 | 24,626 | 190,532 | 57,987 | - | 958,366 |
| Interests in associates and joint ventures | 186 | 207 | 15,035 | 1,661 | 104 | 5 | - | 17,198 |
| Total assets | 1,249,527 | 429,565 | 278,062 | 52,757 | 492,487 | 139,938 | (187,647) | 2,454,689 |
| Customer accounts | 491,563 | 297,484 | 158,155 | 33,511 | 158,486 | 88,526 | - | 1,227,725 |

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| | | | | | | | | |
|---|-----------|---------|---------|--------|---------|---------|-----------|-----------|
| Total liabilities | 1,189,996 | 422,101 | 246,989 | 45,379 | 459,301 | 123,655 | (187,647) | 2,299,774 |
| Capital expenditure incurred ¹ | 865 | 836 | 168 | 46 | 774 | 788 | - | 3,477 |

Expenditure incurred on property, plant and equipment and other intangible assets. Excludes assets acquired as part 1 of business combinations and goodwill.

Net operating income by global business

| | Retail Banking and Wealth Manage- ment ¹ US\$m | Commercial Banking US\$m | Global Banking & Markets ¹ US\$m | Global Private Banking US\$m | Other ² US\$m | Intra- HSBC items US\$m | Total US\$m |
|-----------------------------|---|--------------------------------|---|---------------------------------------|-----------------------------|----------------------------------|----------------|
| Year ended 31 December 2011 | | | | | | | |
| External | 22,705 | 13,624 | 18,897 | 2,121 | 2,806 | - | 60,153 |
| Internal | 1,509 | 249 | (2,824) | 1,085 | 6,339 | (6,358) | - |
| Net operating income | 24,214 | 13,873 | 16,073 | 3,206 | 9,145 | (6,358) | 60,153 |
| Year ended 31 December 2010 | | | | | | | |
| External | 20,797 | 11,419 | 20,822 | 2,194 | (1,024) | - | 54,208 |
| Internal | 1,555 | 610 | (2,900) | 911 | 5,687 | (5,863) | - |
| Net operating income | 22,352 | 12,029 | 17,922 | 3,105 | 4,663 | (5,863) | 54,208 |

With effect from 1 March 2011, our Global Asset Management business was moved from GB&M to RBWM.

¹ Comparative data have been adjusted accordingly.

The main items reported in the 'Other' category are certain property activities, unallocated investment activities, centrally held investment companies, movements in fair value of own debt and HSBC's holding company and financing operations. The 'Other' category also includes gains and losses on the disposal of certain significant subsidiaries or business units.

Information by country

| 2011 | | 2010 | |
|--------------|------|--------------|------|
| External net | Non- | External net | Non- |

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| | operating income ¹ US\$m | current assets ² US\$m | operating income ¹ US\$m | current assets ² US\$m |
|-----------------|---|---|---|---|
| UK | 13,940 | 21,414 | 11,467 | 19,661 |
| Hong Kong | 9,442 | 6,257 | 9,170 | 4,630 |
| USA | 6,193 | 3,830 | 6,098 | 6,669 |
| France | 2,570 | 10,790 | 3,185 | 10,914 |
| Brazil | 5,282 | 2,149 | 4,506 | 2,025 |
| Other countries | 22,726 | 31,590 | 19,782 | 29,747 |
| | 60,153 | 76,030 | 54,208 | 73,646 |

External net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds.

Non-current assets consist of property, plant and equipment, goodwill, other intangible assets, interests in associates and joint ventures and certain other assets expected to be recovered more than twelve months after the reporting period.

9 . Reconciliation of reported and underlying profit before tax

| | 2010 as reported US\$m | 2010 adjustments ¹ US\$m | Currency translation ² US\$m | 2011 compared with 2010 2010 at 2011 exchange rates ³ US\$m | 2011 as reported US\$m | 2011 adjustments ² US\$m | 2011 underlying US\$m |
|---|------------------------------|---|---|---|------------------------------|---|-----------------------------|
| HSBC | | | | | | | |
| Net interest income | 39,441 | 48 | 781 | 40,270 | 40,662 | - | 40,662 |
| Net fee income | 17,355 | (55) | 349 | 17,649 | 17,160 | - | 17,160 |
| Changes in fair value ⁴ | (63) | 63 | - | - | 3,933 | (3,933) | - |
| Other income ⁵ | 11,514 | (847) | 284 | 10,951 | 10,525 | (291) | 10,234 |
| Net operating income ⁶ | 68,247 | (791) | 1,414 | 68,870 | 72,280 | (4,224) | 68,056 |
| Loan impairment charges and other credit risk provisions | (14,039) | - | (206) | (14,245) | (12,127) | - | (12,127) |
| Net operating income | 54,208 | (791) | 1,208 | 54,625 | 60,153 | (4,224) | 55,929 |

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| | | | | | | | |
|------------------------|----------|-------|-------|----------|----------|---------|----------|
| Operating expenses | (37,688) | 220 | (842) | (38,310) | (41,545) | - | (41,545) |
| Operating profit | 16,520 | (571) | 366 | 16,315 | 18,608 | (4,224) | 14,384 |
| Income from associates | 2,517 | - | 93 | 2,610 | 3,264 | 48 | 3,312 |
| Profit before tax | 19,037 | (571) | 459 | 18,925 | 21,872 | (4,176) | 17,696 |

These columns comprise the net increments or decrements in profits in the current year compared with the previous 1 year which are attributable to acquisitions or disposals, gains on the dilution of interests in associates and/or movements in fair value of own debt attributable to credit spread. The inclusion of acquisitions and disposals is determined in the light of events each year.

'Currency translation' is the effect of translating the results of subsidiaries and associates for the previous year at the 2 average rates of exchange applicable in the current year.

Excluding adjustments in 2010.

3

Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the 4 fair value changes due to own credit spread on structured notes issued and other hybrid instruments included within trading liabilities.

Other income in this context comprises net trading income, net income/(expense) from other financial instruments 5 designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.

Net operating income before loan impairment charges and other credit risk provisions.

6

10. Distribution of results by global business

Retail Banking and Wealth Management

| | Half-year to | | | Half-year to | | |
|--|--------------|------------------|--------|--------------|------------------|--------|
| | 30 June 2011 | 31 December 2011 | 2011 | 30 June 2010 | 31 December 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Net interest income | 12,086 | 12,015 | 24,101 | 12,194 | 11,972 | 24,166 |
| Net fee income | 4,212 | 4,014 | 8,226 | 4,060 | 4,337 | 8,397 |
| Net trading income/(expense) | 188 | (707) | (519) | (376) | 298 | (78) |
| Net income/(expense) from financial instruments designated at fair value | 343 | (1,104) | (761) | (127) | 1,337 | 1,210 |
| Gains less losses from financial investments | 70 | 54 | 124 | 1 | (25) | (24) |
| Dividend income | 14 | 13 | 27 | 14 | 13 | 27 |

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| | | | | | | |
|--|----------|----------|----------|---------|----------|----------|
| Net earned insurance premiums | 5,698 | 5,184 | 10,882 | 4,954 | 4,783 | 9,737 |
| Other operating income | 688 | 219 | 907 | 405 | 279 | 684 |
| Total operating income | 23,299 | 19,688 | 42,987 | 21,125 | 22,994 | 44,119 |
| Net insurance claims incurred and movement in liabilities to policyholders | (5,727) | (3,727) | (9,454) | (4,572) | (5,936) | (10,508) |
| Net operating income before loan impairment charges and other credit risk provisions | 17,572 | 15,961 | 33,533 | 16,553 | 17,058 | 33,611 |
| Loan impairment charges and other credit risk provisions | (4,270) | (5,049) | (9,319) | (6,318) | (4,941) | (11,259) |
| Net operating income | 13,302 | 10,912 | 24,214 | 10,235 | 12,117 | 22,352 |
| Total operating expenses | (10,746) | (10,456) | (21,202) | (9,349) | (10,190) | (19,539) |
| Operating profit | 2,556 | 456 | 3,012 | 886 | 1,927 | 2,813 |
| Share of profit in associates and joint ventures | 570 | 688 | 1,258 | 466 | 560 | 1,026 |
| Profit before tax | 3,126 | 1,144 | 4,270 | 1,352 | 2,487 | 3,839 |

Commercial Banking

| | Half-year to | | | Half-year to | | |
|--|--------------|------------------|-------|--------------|------------------|-------|
| | 30 June 2011 | 31 December 2011 | 2011 | 30 June 2010 | 31 December 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Net interest income | 4,814 | 5,117 | 9,931 | 4,024 | 4,463 | 8,487 |
| Net fee income | 2,131 | 2,160 | 4,291 | 1,935 | 2,029 | 3,964 |
| Net trading income | 296 | 288 | 584 | 233 | 222 | 455 |
| Net income/(expense) from financial instruments designated at fair value | 55 | (22) | 33 | 26 | 164 | 190 |
| Gains less losses from financial investments | 2 | 18 | 20 | 3 | (4) | (1) |
| Dividend income | 8 | 7 | 15 | 5 | 7 | 12 |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Net earned insurance premiums | 985 | 971 | 1,956 | 696 | 683 | 1,379 |
| Other operating income | 263 | 220 | 483 | 355 | 230 | 585 |
| Total operating income | 8,554 | 8,759 | 17,313 | 7,277 | 7,794 | 15,071 |
| Net insurance claims incurred and movement in liabilities to policyholders | (874) | (828) | (1,702) | (537) | (700) | (1,237) |
| Net operating income before loan impairment charges and other credit risk provisions | 7,680 | 7,931 | 15,611 | 6,740 | 7,094 | 13,834 |
| Loan impairment charges and other credit risk provisions | (642) | (1,096) | (1,738) | (705) | (1,100) | (1,805) |
| Net operating income | 7,038 | 6,835 | 13,873 | 6,035 | 5,994 | 12,029 |
| Total operating expenses | (3,465) | (3,756) | (7,221) | (3,266) | (3,565) | (6,831) |
| Operating profit | 3,573 | 3,079 | 6,652 | 2,769 | 2,429 | 5,198 |
| Share of profit in associates and joint ventures | 616 | 679 | 1,295 | 435 | 457 | 892 |
| Profit before tax | 4,189 | 3,758 | 7,947 | 3,204 | 2,886 | 6,090 |

Global Banking and Markets

| | Half-year to | | | Half-year to | | |
|---|--------------|------------------|-------|--------------|------------------|-------|
| | 30 June 2011 | 31 December 2011 | 2011 | 30 June 2010 | 31 December 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Net interest income | 3,603 | | 3,660 | 3,724 | 3,619 | 7,343 |
| Net fee income | 1,730 | | 1,497 | 1,879 | 1,785 | 3,664 |
| Net trading income | 3,827 | | 1,377 | 3,754 | 2,076 | 5,830 |
| Net income/(expenses) from financial instruments designated at fair value | (212) | | 140 | 8 | 28 | 36 |
| Gains less losses from financial investments | 414 | | 347 | 507 | 356 | 863 |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Dividend income | 39 | 36 | 75 | 22 | 26 | 48 |
| Net earned insurance premiums | 23 | 24 | 47 | 21 | 20 | 41 |
| Other operating income | 280 | 297 | 577 | 420 | 693 | 1,113 |
| Total operating income | 9,704 | 7,378 | 17,082 | 10,335 | 8,603 | 18,938 |
| Net insurance claims incurred and movement in liabilities to policyholders | (15) | (10) | (25) | (15) | (11) | (26) |
| Net operating income before loan impairment charges and other credit risk provisions | 9,689 | 7,368 | 17,057 | 10,320 | 8,592 | 18,912 |
| Loan impairment charges and other credit risk provisions | (334) | (650) | (984) | (499) | (491) | (990) |
| Net operating income | 9,355 | 6,718 | 16,073 | 9,821 | 8,101 | 17,922 |
| Total operating expenses | (4,860) | (4,862) | (9,722) | (4,607) | (4,621) | (9,228) |
| Operating profit | 4,495 | 1,856 | 6,351 | 5,214 | 3,480 | 8,694 |
| Share of profit in associates and joint ventures | 316 | 382 | 698 | 238 | 283 | 521 |
| Profit before tax | 4,811 | 2,238 | 7,049 | 5,452 | 3,763 | 9,215 |

Global Private Banking

| | Half-year to | | Half-year to | | | |
|--|--------------|-------------|--------------|---------|-------------|-------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Net interest income | 729 | 710 | 1,439 | 646 | 699 | 1,345 |
| Net fee income | 731 | 651 | 1,382 | 643 | 656 | 1,299 |
| Net trading income | 207 | 224 | 431 | 219 | 193 | 412 |
| Gains less losses from financial Investments | (3) | 6 | 3 | 11 | (17) | (6) |

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| | | | | | | |
|---|---------|---------|---------|-------|---------|---------|
| Dividend income | 4 | 3 | 7 | 3 | 2 | 5 |
| Other operating income | 21 | 9 | 30 | 21 | 17 | 38 |
| Net operating income before loan impairment charges and other credit risk provisions | 1,689 | 1,603 | 3,292 | 1,543 | 1,550 | 3,093 |
| Loan impairment (charges)/ recoveries and other credit risk provisions | (22) | (64) | (86) | - | 12 | 12 |
| Net operating income | 1,667 | 1,539 | 3,206 | 1,543 | 1,562 | 3,105 |
| Total operating expenses | (1,117) | (1,149) | (2,266) | (967) | (1,068) | (2,035) |
| Operating profit | 550 | 390 | 940 | 576 | 494 | 1,070 |
| Share of profit/(loss) in associates and joint ventures | 2 | 2 | 4 | (20) | 4 | (16) |
| Profit before tax | 552 | 392 | 944 | 556 | 498 | 1,054 |

Other

| | Half-year to | | | Half-year to | | |
|---|--------------|-------------|-------|--------------|-------------|-------|
| | 30 June | 31 December | | 30 June | 31 December | |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Net interest expense | (481) | (430) | (911) | (537) | (461) | (998) |
| Net fee income | 3 | 31 | 34 | 1 | 30 | 31 |
| Net trading income/(expense) | (222) | (133) | (355) | (572) | 261 | (311) |
| Changes in fair value of long-term debt issued and related derivatives | (494) | 4,655 | 4,161 | 1,125 | (1,383) | (258) |
| Net income/(expense) from other financial instruments | 208 | (130) | 78 | 53 | (11) | 42 |
| Net income/(expense) from financial instruments designated at fair value | (286) | 4,525 | 4,239 | 1,178 | (1,394) | (216) |
| Gains less losses from financial | | | | | | |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| investments | 2 | (3) | (1) | 35 | 101 | 136 |
| Dividend income | 22 | 3 | 25 | 15 | 5 | 20 |
| Net earned insurance premiums | (6) | (7) | (13) | (5) | (6) | (11) |
| Other operating income | 2,997 | 3,130 | 6,127 | 3,114 | 2,891 | 6,005 |
| Total operating income | 2,029 | 7,116 | 9,145 | 3,229 | 1,427 | 4,656 |
| Net insurance claims incurred and movement in liabilities to policyholders | (1) | 1 | - | 3 | 1 | 4 |
| Net operating income before loan impairment charges and other credit risk provisions | 2,028 | 7,117 | 9,145 | 3,232 | 1,428 | 4,660 |
| Loan impairment (charges)/ recoveries and other credit risk provisions | 2 | (2) | - | (1) | 4 | 3 |
| Net operating income | 2,030 | 7,115 | 9,145 | 3,231 | 1,432 | 4,663 |
| Total operating expenses | (3,286) | (4,206) | (7,492) | (2,759) | (3,159) | (5,918) |
| Operating profit/(loss) | (1,256) | 2,909 | 1,653 | 472 | (1,727) | (1,255) |
| Share of profit/(loss) in associates and joint ventures | 52 | (43) | 9 | 68 | 26 | 94 |
| Profit/(loss) before tax | (1,204) | 2,866 | 1,662 | 540 | (1,701) | (1,161) |

11. Foreign currency amounts

The sterling and Hong Kong dollar equivalent figures in the consolidated income statement and balance sheet are for information only. These are translated at the average rate for the period for the income statement and the closing rate for the balance sheet as follows:

| | | Year ended 31 December | |
|-----------|-----------|------------------------|-------|
| | | 2011 | 2010 |
| Closing : | HK\$/US\$ | 7.768 | 7.773 |
| | £/US\$ | 0.646 | 0.644 |
| Average : | HK\$/US\$ | 7.785 | 7.769 |
| | £/US\$ | 0.624 | 0.648 |

12. Contingent liabilities, contractual commitments and guarantees

| | HSBC | |
|---|---------|---------|
| | 2011 | 2010 |
| | US\$m | US\$m |
| Guarantees and contingent liabilities | | |
| Guarantees | 75,672 | 71,157 |
| Other contingent liabilities | 259 | 166 |
| | 75,931 | 71,323 |
| Commitments | | |
| Documentary credits and short-term trade-related transactions | 13,498 | 12,051 |
| Forward asset purchases and forward deposits placed | 87 | 30 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 641,319 | 590,432 |
| | 654,904 | 602,513 |

The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate, and the level of protected deposits at the time.

Commitments

In addition to the commitments disclosed above, at 31 December 2011 HSBC had US\$715m (2010: US\$1,071m) of capital commitments contracted but not provided for and US\$272m (2010: US\$287m) of capital commitments authorised but not contracted for.

Associates

HSBC's share of associates' contingent liabilities amounted to US\$34,311m at 31 December 2011 (2010: US\$25,640m). No matters arose where HSBC was severally liable.

13. Legal proceedings and regulatory matters

HSBC is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters is material, either individually or in the aggregate. HSBC recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it,

appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2011.

Securities litigation

As a result of an August 2002 restatement of previously reported consolidated financial statements and other corporate events, including the 2002 settlement with 46 State Attorneys General relating to real estate lending practices, Household International (now HSBC Finance) and certain former officers were named as defendants in a class action law suit, *Jaffe v Household International Inc, et al No 2. C 5893 (N.D.Ill, filed 19 August 2002)*. The complaint asserted claims under the US Securities Exchange Act of 1934, on behalf of all persons who acquired and disposed of Household International common stock between 30 July 1999 and 11 October 2002. The claims alleged that the defendants knowingly or recklessly made false and misleading statements of material fact relating to Household's Consumer Lending operations, including collections, sales and lending practices, some of which ultimately led to the 2002 State settlement agreement, and facts relating to accounting practices evidenced by the restatement. Following a jury trial concluded in April 2009, which was decided partly in favour of the plaintiffs, the Court issued a ruling on 22 November 2010 within the second phase of the case to determine actual damages, that claim forms should be mailed to class members, and also set out a method for calculating damages for class members who filed claims. As previously reported, lead plaintiffs, in court filings in March 2010, estimated that damages could range 'somewhere between US\$2.4bn to US\$3.2bn to class members', before pre-judgement interest.

On 22 December 2011, plaintiffs submitted the report of the Court-appointed claims administrator to the Court. That report stated that the total number of claims that generated an allowed loss was 45,921, and that the aggregate amount of these claims was approximately US\$2.23bn. Now that the claims administration process is complete, plaintiffs are expected to ask the Court to assess pre-judgement interest to be included as part of the Court's final judgement. On 27 January 2012, the Court held a status conference at which it set a schedule for us to provide plaintiffs with objections to the claims and for plaintiffs to respond to such objections. The Court also indicated at that conference that it expects to schedule a further conference in April 2012. We expect the Court's final judgement to be entered at some point after this conference.

Despite the jury verdict and the 22 November 2010 ruling, HSBC continues to believe that it has meritorious grounds for appeal of one or more of the rulings in the case, and intends to appeal the Court's final judgement, which could involve a substantial amount once it is entered. Upon appeal, HSBC Finance will be required to provide security for the judgement in order to suspend its execution while the appeal is ongoing by either depositing cash in an interest-bearing escrow account or posting an appeal bond in the amount of the judgement (including any pre-judgement interest awarded).

Given the complexity and uncertainties associated with the actual determination of damages, including the outcome of any appeals, there is a wide range of possible damages. HSBC believes it has meritorious grounds for appeal on matters of both liability and damages and will argue on appeal that damages should be nil or a relatively insignificant amount. If the Appeals Court rejects or only partially accepts HSBC's arguments, the amount of damages, including pre judgement interest, could be higher, and may lie in a range from a relatively insignificant amount to somewhere in the region of US\$3.5bn.

Bernard L. Madoff Investment Securities LLC

In December 2008, Bernard L. Madoff ('Madoff') was arrested for running a Ponzi scheme and a trustee was appointed for the liquidation of his firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), an SEC-registered broker-dealer and investment adviser. Since his appointment, the trustee has been recovering assets and processing claims of Madoff Securities customers. Madoff subsequently pleaded guilty to various charges and is serving a 150 year prison sentence. He has acknowledged, in essence, that while purporting to invest his customers' money in securities and, upon request, return their profits and principal, he in fact never invested in securities and used other customers' money to fulfil requests for the return of profits and principal. The relevant US authorities are

continuing their investigations into his fraud, and have brought charges against others, including certain former employees and the former auditor of Madoff Securities.

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was US\$8.4bn, an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC to date, we estimate that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totalled approximately US\$4bn.

Plaintiffs (including funds, fund investors, and the Madoff Securities trustee) have commenced Madoff-related proceedings against numerous defendants in a multitude of jurisdictions. Various HSBC companies have been named as defendants in suits in the US, Ireland, Luxembourg and other jurisdictions. Certain suits (which included four US putative class actions) allege that the HSBC defendants knew or should have known of Madoff's fraud and breached various duties to the funds and fund investors.

In July 2010, the US District Court Judge overseeing a putative class action in the Southern District of Florida dismissed all claims against the HSBC defendants for lack of personal jurisdiction and on forum non conveniens grounds. In August 2011, the US Court of Appeals for the Eleventh Circuit affirmed the dismissal.

In November 2011, the US District Court Judge overseeing three related putative class actions in the Southern District of New York dismissed all claims against the HSBC defendants on forum non conveniens grounds, but temporarily stayed this ruling as to one of the actions against the HSBC defendants - the claims of investors in Thema International Fund plc - in light of a proposed amended settlement agreement pursuant to which, subject to various conditions, the HSBC defendants had agreed to pay from US\$52.5m up to a maximum of US\$62.5m. In December 2011, the court lifted this temporary stay and dismissed all remaining claims against the HSBC defendants, and declined to consider preliminary approval of the settlement. In light of the court's decisions, HSBC has terminated the settlement agreement. The Thema plaintiff contests HSBC's right to terminate. Plaintiffs in all three actions have filed notices of appeal to the US Court of Appeals for the Second Circuit.

In December 2010, the Madoff Securities trustee commenced suits against various HSBC companies in the US Bankruptcy Court and in the English High Court. The US action (which also names certain funds, investment managers, and other entities and individuals) sought US\$9bn in damages and additional recoveries from HSBC and the various co-defendants. It sought damages against HSBC for allegedly aiding and abetting Madoff's fraud and breach of fiduciary duty. In July 2011, after withdrawing the case from the Bankruptcy Court in order to decide certain threshold issues, the US District Court Judge dismissed the trustee's various common law claims on the grounds that the trustee lacks standing to assert them. In December 2011, the District Court issued an order that allowed the trustee to immediately appeal that ruling and the trustee has filed a notice of appeal.

The District Court returned the remaining claims to the US Bankruptcy Court for further proceedings. Those claims seek, pursuant to US bankruptcy law, recovery of unspecified amounts received by HSBC from funds invested with Madoff, including amounts that HSBC received when it redeemed units HSBC held in the various funds. HSBC acquired those fund units in connection with financing transactions HSBC had entered into with various clients. The trustee's US bankruptcy law claims also seek recovery of fees earned by HSBC for providing custodial, administration and similar services to the funds. In September 2011, certain non-HSBC defendants moved again to withdraw the case from the Bankruptcy Court. Those withdrawal motions are currently pending before the District Court.

The trustee's English action seeks recovery of unspecified transfers of money from Madoff Securities to or through HSBC, on the grounds that the HSBC defendants actually or constructively knew of Madoff's fraud. HSBC has not been served.

Between October 2009 and July 2011, Fairfield Sentry Limited and Fairfield Sigma Limited ('Fairfield'), funds whose assets were directly or indirectly invested with Madoff Securities, commenced multiple suits in the British Virgin Islands ('BVI') and the US against numerous fund shareholders, including various HSBC companies that acted as nominees for clients of HSBC's private banking business and other clients who invested in the Fairfield funds. The Fairfield actions seek restitution of amounts paid to the defendants in connection with share redemptions, on the ground that such payments were made by mistake, based on inflated values resulting from Madoff's fraud, and some actions also seek recovery of the share redemptions under BVI insolvency law. The actions in the US are currently stayed in the Bankruptcy Court while plaintiffs pursue an appeal of a decision that reversed the Bankruptcy Court's denial of defendants' motions to remand or abstain and pending developments in related appellate litigation in the BVI.

There are many factors which may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings, including but not limited to the circumstances of the fraud, the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. For these reasons, among others, it is not practicable at this time for HSBC to estimate reliably the aggregate liabilities, or ranges of liabilities, that might arise as a result of all such claims but they could be significant. In any event, HSBC considers that it has good defences to these claims and will continue to defend them vigorously.

US mortgage-related investigations

In April 2011, HSBC Bank USA entered into a consent cease and desist order with the Office of the Comptroller of the Currency and HSBC Finance and HSBC North America Holdings Inc ('HNAH') entered into a similar consent order with the Federal Reserve Board following completion of a broad horizontal review of industry residential mortgage foreclosure practices. These consent orders require prescribed actions to address the deficiencies noted in the joint examination and described in the consent orders. HSBC Bank USA, HSBC Finance and HNAH continue to work with the Office of the Comptroller of the Currency and the Federal Reserve Board to align their processes with the requirements of the consent orders and are implementing operational changes as required.

These consent orders require an independent review of foreclosures pending or completed between January 2009 and December 2010 (the 'Foreclosure Review Period') to determine if any customer was financially injured as a result of an error in the foreclosure process. Customer outreach efforts are required, including mailings to customers and industry media advertising, to notify borrowers with foreclosures pending or completed during the Foreclosure Review Period of the foreclosure complaint review process and their ability to request a review of their foreclosure proceeding. The costs associated with the foreclosure review include the costs of conducting the customer outreach plan and complaint process, and the cost of any resulting remediation.

These consent orders do not preclude additional enforcement actions against HSBC Bank USA, HSBC Finance or HNAH by bank regulatory, governmental or law enforcement agencies, such as the US Department of Justice ('DoJ') or State Attorneys General, which could include the imposition of civil money penalties and other sanctions relating to the activities that are the subject of the consent orders. The Federal Reserve Board has indicated in a press release relating to the financial services industry in general that it believes monetary penalties are appropriate for the enforcement actions and that it plans to announce such penalties. An increase in private litigation concerning these practices is also possible.

It has been announced that the five largest US mortgage servicers (not including HSBC) have reached a settlement with the DoJ, the US Department of Housing and Urban Development and State Attorneys General of 49 states with respect to foreclosure and other mortgage servicing practices. HNAH, HSBC Bank USA and HSBC Finance have had preliminary discussions with bank regulators and other governmental agencies regarding a potential resolution, although the timing of any settlement is not presently known. Based on discussions to date, HSBC recognised provisions of US\$257m in the fourth quarter of 2011 to reflect the estimated liability associated with a proposed settlement of this matter. Any such settlement, however, may not completely preclude other enforcement actions by

state or federal agencies, regulators or law enforcement bodies related to foreclosure and other mortgage servicing practices, including, but not limited to matters relating to the securitisation of mortgages for investors, including the imposition of civil money penalties, criminal fines or other sanctions. In addition, such a settlement would not preclude private litigation concerning these practices.

Participants in the US mortgage securitisation market that purchased and repackaged whole loans have been the subject of lawsuits and governmental and regulatory investigations and inquiries, which have been directed at groups within the US mortgage market, such as servicers, originators, underwriters, trustees or sponsors of securitisations, and at particular participants within these groups. As the industry's residential mortgage foreclosure issues continue, HSBC Bank USA has taken title to an increasing number of foreclosed homes as trustee on behalf of various securitisation trusts. As nominal record owner of these properties, HSBC Bank USA has been sued by municipalities and tenants alleging various violations of law, including laws regarding property upkeep and tenants' rights. While HSBC believes and continues to maintain that the obligations at issue and the related liability are properly those of the servicer of each trust, HSBC continues to receive significant and adverse publicity in connection with these and similar matters, including foreclosures that are serviced by others in the name of 'HSBC, as trustee'. HSBC Bank USA and HSBC Securities (USA) Inc. have been named as defendants in a number of actions in connection with residential mortgage-backed securities ('RMBS') offerings, which generally allege that the offering documents for securities issued by securitisation trusts contained material misstatements and omissions, including statements regarding the underwriting standards governing the underlying mortgage loans. These include an action filed in September 2011 by the Federal Housing Finance Agency. This action is one of a series of similar actions filed against 17 financial institutions alleging violations of federal securities laws and state statutory and common law in connection with the sale of private-label RMBS purchased by Fannie Mae and Freddie Mac, primarily from 2005 to 2008.

HSBC Bank USA has received subpoenas from the Securities and Exchange Commission ('SEC') seeking production of documents and information relating to its involvement and the involvement of its affiliates in specified private-label RMBS transactions as an issuer, sponsor, underwriter, depositor, trustee, custodian or servicer. HSBC Bank USA has also had preliminary contacts with other government authorities exploring the role of trustees in private label RMBS transactions. HSBC Bank USA also received a subpoena from the US Attorney's Office, Southern District of New York seeking production of documents and information relating to loss mitigation efforts with respect to residential mortgages in the State of New York and a Civil Investigative Demand from the Massachusetts State Attorney General seeking documents, information and testimony related to the sale of RMBS to public and private customers in the State of Massachusetts from January 2005 to the present.

HSBC expects this level of focus will continue and, potentially, intensify, so long as the US real estate markets continue to be distressed. As a result, HSBC Group companies may be subject to additional litigation and governmental and regulatory scrutiny related to its participation in the US mortgage securitisation market, either individually or as a member of a group. HSBC is unable to estimate reliably the financial effect of any action or litigation relating to these matters. As situations develop it is possible that any related claims could be significant.

Other US regulatory and law enforcement investigations

In October 2010, HSBC Bank USA entered into a consent cease and desist order with the Office of the Comptroller of the Currency and the indirect parent of that company, HNAH, entered into a consent cease and desist order with the Federal Reserve Board. These actions require improvements for an effective compliance risk management programme across the Group's US businesses, including US Bank Secrecy Act ('BSA') and Anti Money Laundering ('AML') compliance. Steps continue to be taken to address the requirements of these Orders to ensure compliance, and that effective policies and procedures are maintained.

The AML/BSA consent cease and desist orders do not preclude additional enforcement actions against HSBC Bank USA or HNAH by bank regulatory or law enforcement agencies, including the imposition of civil money penalties,

criminal fines and other sanctions relating to activities that are the subject of the AML/BSA cease and desist orders. HSBC continues to cooperate in ongoing investigations by the DoJ, the Federal Reserve and the Office of the Comptroller of the Currency in connection with AML/BSA compliance including cross-border transactions involving its remittance and its former bulk cash businesses.

HSBC continues to cooperate in ongoing investigations by the DoJ, the New York County District Attorney's Office, the Office of Foreign Asset Control ('OFAC'), the Federal Reserve and the Office of the Comptroller of the Currency regarding historical transactions involving Iranian parties and other parties subject to OFAC economic sanctions.

In April 2011, HSBC Bank USA received a summons from the US Internal Revenue Service directing HSBC Bank USA to produce records with respect to US-based clients of an HSBC Group company in India. While the summons was withdrawn voluntarily, HSBC Bank USA has cooperated fully by providing responsive documents in its possession in the US to the US Internal Revenue Service, and engaging in efforts to resolve these matters.

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain Group companies acted appropriately in relation to certain customers who had US tax reporting requirements.

In April 2011, HSBC Bank USA received a subpoena from the SEC directing HSBC Bank USA to produce records in the US related to, among other things, HSBC Private Bank Suisse SA's cross-border policies and procedures and adherence to US broker-dealer and investment adviser rules and regulations when dealing with US resident clients. HSBC Bank USA continues to cooperate with the SEC.

HSBC continues to cooperate with an investigation by the US Senate Permanent Subcommittee on Investigations related to AML/BSA compliance, OFAC sanctions and compliance with US tax and securities laws.

In each of these US regulatory and law enforcement matters, HSBC Group companies have received Grand Jury subpoenas or other requests for information from US Government or other agencies, and HSBC is cooperating fully and engaging in efforts to resolve matters. It is likely that there will be some form of formal enforcement action which may be criminal or civil in nature in respect of some or all of the ongoing investigations. Investigations of several other financial institutions in recent years for breaches of BSA, AML and OFAC requirements have resulted in settlements. Some of those settlements involved the filing of criminal charges, in some cases including agreements to defer prosecution of these charges, and the imposition of fines and penalties. Some of those fines and penalties have been significant depending on the individual circumstances of each action. The investigations are ongoing. Based on the facts currently known, it is not practicable at this time for HSBC to determine the terms on which the ongoing investigations will be resolved or the timing of such resolution or for HSBC to estimate reliably the amounts, or range of possible amounts, of any fines and/or penalties. As matters progress, it is possible that any fines and/or penalties could be significant.

Investigations into the setting of London interbank offered rates and European interbank offered rates

Various regulators and competition and enforcement authorities around the world including in the UK, the US and the EU, are conducting investigations related to certain past submissions made by panel banks in connection with the setting of London interbank offered rates ('LIBOR') and European interbank offered rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries have been the subject of regulatory demands for information and are cooperating with their investigations. In addition, HSBC and other panel banks have been named in putative class action lawsuits filed by private parties in the US with respect to the setting of US dollar LIBOR. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these regulatory investigations or putative class action lawsuits, including the timing and potential impact, if any, on HSBC.

14. Goodwill impairment

It is HSBC's policy to test goodwill for impairment annually, and to perform an impairment test more frequently for cash generating units ('CGUs') when there are indications that conditions have changed for those CGUs since the last goodwill impairment test that would result in a different outcome.

During 2011 and 2010 there was no impairment of goodwill.

15. Events after the balance sheet date

On 24 January 2012, we announced an agreement to sell our banking operations in Costa Rica, El Salvador and Honduras to Banco Davivienda S.A. ('Davivienda'), a Colombian-listed banking group, for a total consideration of US\$801m in cash. The transaction is subject to regulatory and other approvals and is expected to complete in the fourth quarter of 2012. The assets and associated liabilities of these operations were classified as held for sale at 31 December 2011.

A fourth interim dividend for 2011 of US\$0.14 per ordinary share (a distribution of approximately US\$2,515m) was declared by the Directors after 31 December 2011.

These accounts were approved by the Board of Directors on 27 February 2012 and authorised for issue

16. Capital resources

| | At 31 December 2011 US\$m | At 31 December 2010 US\$m |
|--|---------------------------------------|---------------------------------------|
| Composition of regulatory capital | | |
| Tier 1 capital | | |
| Shareholders' equity | 154,148 | 142,746 |
| Shareholders' equity per balance sheet | 158,725 | 147,667 |
| Preference share premium | (1,405) | (1,405) |
| Other equity instruments | (5,851) | (5,851) |
| Deconsolidation of special purpose entities | 2,679 | 2,335 |
| Non-controlling interests | | |
| Non-controlling interests per balance sheet | 3,963 | 3,917 |
| Preference share non-controlling interests | 7,368 | 7,248 |
| Non-controlling interests transferred to tier 2 capital | (2,412) | (2,426) |
| Non-controlling interests in deconsolidated subsidiaries | (496) | (501) |
| | (497) | (404) |
| Regulatory adjustments to the accounting basis | (4,331) | 1,794 |
| Unrealised losses on available-for-sale debt securities | 2,228 | 3,843 |
| Own credit spread | (3,608) | (889) |
| Defined benefit pension fund adjustment | (368) | 1,676 |

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| | | |
|---|----------|----------|
| Reserves arising from revaluation of property and unrealised gains on | | |
| available-for-sale equities | (2,678) | (3,121) |
| Cash flow hedging reserve | 95 | 285 |
| Deductions | (31,284) | (32,341) |
| Goodwill capitalised and intangible assets | (27,419) | (28,001) |
| 50% of securitisation positions | (1,207) | (1,467) |
| 50% of tax credit adjustment for expected losses | 188 | 241 |
| 50% of excess of expected losses over impairment allowances | (2,846) | (3,114) |
| Core tier 1 capital | 122,496 | 116,116 |
| Other tier 1 capital before deductions | 17,939 | 17,926 |
| Preference share premium | 1,405 | 1,405 |
| Preference share non-controlling interests | 2,412 | 2,426 |
| Hybrid capital securities | 14,122 | 14,095 |
| Deductions | (845) | (863) |
| Unconsolidated investments | (1,033) | (1,104) |
| 50% of tax credit adjustment for expected losses | 188 | 241 |
| Tier 1 capital | 139,590 | 133,179 |
| | At | At |
| | 31 | 31 |
| | December | December |
| | 2011 | 2010 |
| | US\$m | US\$m |
| Tier 2 capital | | |
| Total qualifying tier 2 capital before deductions | 48,676 | 52,713 |
| Reserves arising from revaluation of property and unrealised gains on | | |
| available-for-sale equities | 2,678 | 3,121 |
| Collective impairment allowances | 2,660 | 3,109 |
| Perpetual subordinated debt | 2,780 | 2,781 |
| Term subordinated debt | 40,258 | 43,402 |
| Non-controlling interests in tier 2 capital | 300 | 300 |
| Total deductions other than from tier 1 capital | (17,932) | (18,337) |
| Unconsolidated investments | (13,868) | (13,744) |
| 50% of securitisation positions | (1,207) | (1,467) |
| 50% of excess of expected losses over impairment allowances | (2,846) | (3,114) |
| Other deductions | (11) | (12) |

| | | |
|--------------------------|-----------|-----------|
| Total regulatory capital | 170,334 | 167,555 |
| Risk-weighted assets | | |
| Credit risk | 958,189 | 890,696 |
| Counterparty credit risk | 53,792 | 50,175 |
| Market risk | 73,177 | 38,679 |
| Operational risk | 124,356 | 123,563 |
| Total | 1,209,514 | 1,103,113 |

| | | |
|---------------------|------|------|
| | 2011 | 2010 |
| | % | % |
| Capital ratios | | |
| Core tier 1 ratio | 10.1 | 10.5 |
| Tier 1 ratio | 11.5 | 12.1 |
| Total capital ratio | 14.1 | 15.2 |

17. Forward-looking statements

This news release contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, such as those that include the words 'potential', 'estimated', and similar expressions or variations on such expressions may be considered 'forward-looking statements'.

Past performance cannot be relied on as a guide to future performance.

18. Statutory accounts

The information in this news release does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2011 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 441 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under Section 498(2) or (3) of the Act.

19. Dealings in HSBC Holdings plc shares

Except for dealings as intermediaries by HSBC Bank plc and The Hongkong and Shanghai Banking Corporation Limited, which are members of a European Economic Area exchange, neither HSBC Holdings nor any of its subsidiaries has purchased, sold or redeemed any listed securities of HSBC Holdings during the year ended 31 December 2011.

20. Interim dividends for 2012

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The Board has adopted a policy of paying quarterly interim dividends on the ordinary shares. Under this policy it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2012 will be US\$0.09 per ordinary share. The proposed timetables for the dividends in respect of 2012 are:

| | Interim dividends on the ordinary shares for 2012 | | | |
|---|---|----------------|------------------|---------------|
| | First | Second | Third | Fourth |
| Announcement | 30 April 2012 | 30 July 2012 | 9 October 2012 | 4 March 2013 |
| Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda | 16 May 2012 | 15 August 2012 | 24 October 2012 | 20 March 2013 |
| ADSs quoted ex-dividend in New York | 16 May 2012 | 15 August 2012 | 24 October 2012 | 20 March 2013 |
| Record date in Hong Kong | 17 May 2012 | 16 August 2012 | 25 October 2012 | 21 March 2013 |
| Record date in London, New York, Paris and Bermuda | 18 May 2012 | 17 August 2012 | 26 October 2012 | 22 March 2013 |
| Payment date | 5 July 2012 | 4 October 2012 | 12 December 2012 | 8 May 2013 |

Removals to and from the Overseas Branch Register of shareholders in Hong Kong will not be permitted on these dates.

21. Corporate governance

We are committed to high standards of corporate governance. We have complied throughout the year with the applicable code provisions of The UK Corporate Governance Code issued by the Financial Reporting Council and the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that the Group Risk Committee (all the members of which are independent non-executive Directors), which was established in accordance with the recommendations of the Report on Governance in UK banks and other financial industry entities, is responsible for the oversight of internal controls (other than internal controls over financial reporting) and risk management systems (Code on Corporate Governance Practices, provisions C.3.3 paragraphs (f), (g) and (h)). If there were no Group Risk Committee, these matters would be the responsibility of the Group Audit Committee. The UK Corporate Governance Code is available at www.frc.org.uk and the Code on Corporate Governance Practices is available at www.hkex.com.hk.

The Board has adopted a code of conduct for transactions in HSBC Group Securities by Directors. The code of conduct complies with The Model Code in the Listing Rules of the Financial Services Authority and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code. The waivers granted by The Stock Exchange of Hong Kong Limited primarily take into account accepted practices in the UK, particularly in respect of employee share plans. Following a specific enquiry, each Director has confirmed that he or she has complied with the code of conduct for transactions in HSBC Group Securities throughout the year.

The Directors of HSBC Holdings plc as at the date of this announcement are:

D J Flint, S T Gulliver, S A Catz†, L M L Cha†, M K T Cheung†, J D Coombe†, R A Fairhead†, A A Flockhart, J W J Hughes-Hallett†, W S H Laidlaw†, J R Lomax†, I J Mackay, G Morgan†, N R N Murthy†, Sir Simon Robertson†, J L Thornton† and Sir Brian Williamson†.

† Independent non-executive Director

The Group Audit Committee has reviewed the annual results for 2011.

22. Annual Review and Annual Report and Accounts

The Annual Review 2011 and/or Annual Report and Accounts 2011 will be mailed to shareholders on or about Tuesday, 27 March 2012. Copies may be obtained from Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC - North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France; or from the HSBC Group website www.hsbc.com.

A Chinese translation of the Annual Review and Annual Report and Accounts is available upon request after 27 March 2012 from Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

A French translation of the Annual Review may be obtained on request from May onwards from Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France.

The Annual Review and Annual Report and Accounts will be available on the Stock Exchange of Hong Kong's website www.hkex.com.hk.

The Form 20-F will be filed with the US Securities and Exchange Commission.

Custodians or nominees that wish to distribute copies of the Annual Review and/or Annual Report and Accounts to their clients may request copies by writing to: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, United Kingdom.

23. HSBC Holdings plc - Capital and Risk Management Pillar 3 Disclosures

HSBC also publishes its Capital and Risk Management Pillar 3 Disclosures at 31 December 2011 ('Pillar 3 Disclosures 2011') today and the report is available on the HSBC Group website - www.hsbc.com.

A Chinese translation of the Pillar 3 Disclosures 2011 will be available on the HSBC Group website on 30 March 2012.

24. Annual General Meeting

The 2012 Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 25 May 2012 at 11.00 am.

Notice of the meeting will be mailed to shareholders on or about Tuesday, 27 March 2012.

25. Interim Management Statements and Interim Results for 2012

Interim Management Statements are expected to be issued on 8 May 2012 and 5 November 2012. The Interim Results for the six months to 30 June 2012 are expected to be announced on Monday, 30 July 2012.

26. News release

Copies of this news release may be obtained from Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Employee Communications, HSBC - North America, 26525 N Riverwoods Boulevard, Mettawa, Illinois 60045, USA; Direction de la Communication, HSBC France, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. The news release will also be available on the HSBC Group website - www.hsbc.com.

27. For further information contact:

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Telephone +33 1 41 02 41 91

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 27 February, 2012